

# STATE PURCHASE

AND

# CONTROL OF LIQUOR TRADE.

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## REPORTS

OF

## ENGLISH, SCOTCH AND IRISH COMMITTEES.

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*Presented to Parliament by Command of His Majesty.*

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LONDON:

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1918.

[Cl. 9042.]

Price 9d. net.

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# LIQUOR TRADE FINANCE COMMITTEES—ENGLAND AND WALES, SCOTLAND, AND IRELAND.

## I.—COMPARISON OF REPORTS.

### (A.) INTRODUCTION.

1. While all the Committees avoid questions of policy, which lie outside their reference, none of them reports any point of financial deadlock or impracticability in a scheme of State purchase. All three reports propose definite terms for the purchase of the interests affected.

2. The English and Scottish Committees give estimates of the cost of acquisition on the terms recommended. The Irish Committee gives only certain materials for an estimate. From these data, after making necessary allowances, the gross total, so far as calculable, appears to be somewhat more than 400,000,000*l.*, but substantially less than 500,000,000*l.*

3. Copies of the three reports, each with an abstract prefixed, and a tabular comparison of the reports are annexed.

4. There is a large amount of agreement between the reports. Where they differ, the cause is usually to be found in characteristic differences of law or custom or practice between the three countries.

### (B.) DIFFERENCES OF LAW, CUSTOM, AND TRADE ORGANISATION IN THE THREE COUNTRIES.

#### (i.) *Scotland.*

5. Scotland is specially affected by the rights of local option exercisable in and after 1920 under the Scottish Temperance Act, 1913.

6. This fact manifests itself in several points in the Scottish report:—

(a.) The Scottish Committee lay emphasis on the opposition which proposals of State purchase would encounter if not accompanied by a definite understanding that purchase should not derogate from the rights of local option. At the same time they refer to "well-informed and weighty opinion" received in evidence, that purchase might, by eliminating organised trade opposition, smooth the pathway to local veto.

(b.) It is recommended that in Scotland the State should not assume obligations to acquire any property interest in public-houses, but only the goodwill of the trading occupier. The State is to become the tenant of any premises in which it desires to continue the sale of drink; and provision is made for compensation to the owner if the liquor trade is discontinued on the premises.

(c.) The diminished security of the trade is reflected, as the Scottish Committee expressly say, in the numbers of years' purchase which they have recommended.

#### (ii.) *Scotland and Ireland.*

7. The fact that the manufacture of spirits and the spirit trade generally are of much greater relative importance in Scotland and Ireland than in England leads the Scottish and Irish Committees to make recommendations with regard to distillers and rectifiers, whereas the English Committee refrained from doing so, and left the point to be dealt with on the other reports.

8. A similar reason underlies differences of recommendation as to the interests of the holders of wholesale liquor licences (not being manufacturers), including bottlers and blenders. The English Committee hold that no general acquisition of the businesses of English wholesale dealers is necessary to the administrative objects of a purchase scheme, and that so large a proportion of their trade is in wine and foreign spirits that their exclusion from a scheme to purchase the English manufacturing and retail businesses is consistent with equity. The Scottish and Irish Committees, on the contrary, contemplate the inclusion of wholesale dealers in a purchase scheme, because, owing to their greater dependence on home-manufactured as against imported liquor, these wholesale businesses are not equitably separable from the manufacture and retail sale of spirits in Scotland and Ireland for the purposes of acquisition by the State.

9. The greater relative importance of the Scottish and Irish spirit trade underlies a further difference between the reports, viz., as to the method of dealing with bonded whisky stocks—a matter of monetary adjustment rather than of principle. The Scottish and Irish Committees propose to make the purchase of stocks a separate transaction from that of other trade assets, solving the difficulty of the inflation of whisky prices which has occurred since 1914 by statutory application of the principle of Excess Profits Duty, i.e., by purchase at current market value less 80 per cent. of the excess of that value over the 1914 market value. The English Committee, dealing with a comparatively small distilling interest and a much smaller quantity of bonded spirits, act on the principle that the bulk of the stocks can be regarded as working capital required to earn the profit, and their value should accordingly be included in the sum arrived at by capitalising the net profits of the concern owning them. As regards, however, any stocks in excess of the normal or working capital stock, the principle of Excess Profits Duty suggested by the Scottish and Irish Committees could appropriately be applied.

10. Other important differences of trade custom and characteristics between the three countries are the comparative absence in Scotland and Ireland of public houses tied by annual tenancy covenant to a manufacturer, and the absence of any scheme for the gradual reduction of licences, with compensation, introduced in England by the Licensing Act of 1904. For these or other reasons the security and independence of the Scottish and Irish publican—particularly the latter—appear to be thought greater than those of the ordinary English publican, and a higher number of years' purchase is adopted as a normal figure for the goodwill of Scottish retailers (despite the counter-effect of the Scottish Temperance Act), and a considerably higher number for the Irish retail trade.

#### (C.) PERIOD OF CONTROL.

11. The Committees were led by the terms of reference to contemplate the deferment of purchase till after the war, purchase being preceded by a period of control of the trade by the State. While the recommendations of the English and Irish Committees assume this basis, the Scottish Committee (paragraphs 4 to 8 of their report) appear at first sight to take exception to such an arrangement.

12. No difference of principle, however, arises. All three Committees contemplate (1) that control can only be assumed under a statutory pledge of purchase, and (2) that the State, as from the assumption of control, should have absolute freedom of action in consolidating and re-organising the trade according to its will. The point of the Scottish Committee's argument is that the State, before assuming control, must accept liability to purchase upon terms appropriate to the existing conditions, and not defer a decision as to the terms of purchase until after a period of control. The Committee expressly recognise the possibility of deferring the actual discharge of the capital liabilities of the State till after the war, provided that those liabilities are accepted prior to the assumption of control, and that *interim* payments on an income basis are made. The Scottish Committee thus bring themselves into the closest agreement with the English and Irish Committees, who also associate the assumption of control with *interim* payments and the acceptance of a deferred obligation to purchase.

#### (D.) DEBENTURE-HOLDERS.

13. In one instance the Scottish Committee differ markedly from the other Committees on a question not apparently referable to any characteristic difference of Scottish law or trade organisation. The English and the Irish Committees recommend statutory abrogation of the right of debenture holders and other holders of priorities, on the liquidation of brewery or other trade companies, to prior repayment up to the nominal value of their holdings. The Scottish Committee recommend (paragraph 151) that purchase should be made to operate as a legal liquidation of the company, and so give the debenture holders and preference security holders the right to full repayment before the junior securities can receive any part of the purchase consideration.

14. The arguments in favour of some statutory curtailment, in the special circumstances of a State purchase scheme, of the rights of priority holders are stated in paragraphs 53-59 of the English report, and a model scheme of apportionment of the purchase consideration is given in the Appendix to that report.

## (E.) FORM OF PAYMENT.

15. The two main considerations on which the English Committee proceed under this head are (1) that in equity the trade should be bought out on the basis of the profit which it was capable of earning before the war capitalised initially at the rate of capitalisation which it could have commanded before the war; and (2) that, at the time when the State's obligations come to be discharged, the conditions of the money market are likely to be very different from those of 1913-14, and the general standard of capital values substantially lower. As the degree of depreciation cannot now be predicted, they recommend that the sum arrived at under (1) should be written down to the standard of capital values prevailing when the purchase transaction comes to be completed, and that a special Government guaranteed stock should be issued at a denomination and issue price enabling it to command in the market cash equivalent to the sum so adjusted.

16. The Scottish and Irish Committees affirm the same principle of purchase on the basis of pre-war profits at pre-war rates of capitalisation; they do not appear, however, to have taken expert financial evidence on the form in which the stock representing the purchase consideration should be issued, (see paragraph 155 of the Scottish, and paragraph 64 of the Irish report); and they reserve the question of the form of payment for further consideration by the Government. They thus leave room for the adoption of the writing-down process recommended by the English Committee; the Irish Committee indeed point in this direction by tentatively suggesting a 4 per cent. basis for the stock to be issued.

## (F.) PRINCIPLES AGREED BY THE COMMITTEES.

17. (a.) All three Committees agree as to the interests (apart from the wholesale dealers) which must be included in a purchase scheme, and as to those which can and should be excluded. All include the export trade as a subject of acquisition; all propose to exclude allied trades (subject, possibly, to some special provision with regard to the maltsters), the major portion of hotels, clubs, railway refreshment rooms, theatre bars, passenger vessel bars, and dining cars, and the non-liquor part of mixed businesses.

(b.) They agree in providing a normal basis of purchase for separate interests, with provision for variations in exceptional cases by agreement with a Government purchasing authority or by reference to a tribunal or arbiter at the instance of either party.

(c.) They agree in believing that the principle of ascertaining the purchase consideration by a simple capitalisation of net profits is proper for the majority of the interests concerned.

(d.) They agree that the profits to be so capitalised must be the pre-war profits, and that the effect of war conditions on profits, whether favourable or the reverse, must be excluded. (According to the English and Irish reports special rules are to be laid down for the ascertainment of these profits; under the Scottish report income-tax assessment would be taken.)

## II.—ENGLAND AND WALES.

## ABSTRACT OF REPORT.

- Para. 5-11. 1. The Committee have gone very thoroughly into the question of the interest involved in and the financial machinery required to carry out a decision to purchase the liquor trade. The terms of reference precluded the Committee from entering into the questions of social or financial policy involved.
- Para. 2.
- Para. 4. 2. Assuming as necessary a control of the trade of such dimensions and character as to involve its purchase, the Committee, in considering what interests should be acquired, proceeded on the principle of excluding interests the exclusion of which is compatible with the objects of the Government and with the protection of the State's monopoly in carrying on the acquired industries.

*Interests to be Acquired.*

- Para. 111(1). 3. The statute would vest in the State four main interests, viz. (1) breweries, with the freehold of their licensed premises and other trade properties; (2) free houses; (3) the interests of holders of on-licences; and (4) the interests of holders of retail off-licences, but not the premises.
- Para. 83-85 and 106-107. 4. The question of acquiring English distilling and rectifying concerns is left over pending the reports of the Scotch and Irish Committees. The businesses of wholesale dealers (with exceptions in special cases), maltsters, and allied trades are excluded from purchase. To deal with maltsters, an undertaking is suggested that for a period of years the Government should continue to supply its wants from its own maltings and from outside maltsters respectively in the same ratio in which the wants of the brewery trade were supplied at the time of purchase.
- Para. 96, 97, and 103. 5. As to hotels and similar border-line interests, the line of the Report is that it would not be necessary to acquire them, though power should be conferred on the controlling authority to regulate their trade administratively, largely according to experience. Sales of liquor in hotels, restaurants, and railway refreshment rooms might, it is suggested, be limited to *bond fide* guests or travellers, a moderate compensation being given if substantial loss resulted; but the business of public drinking bars in hotels should be acquired. As regards clubs, compensation, if any, would depend upon the precise form of restriction imposed by the controlling authority.
- Para. 100-102. 6. On these recommendations, the State would acquire the retail distribution whether for on or off-consumption, of all intoxicants, except in hotels, restaurants, railway refreshment rooms, &c., to guests or travellers, and in clubs. It would also acquire the manufacture of beer, and possibly of British spirits and their wholesale distribution. The State would not, as a rule, acquire wholesale businesses in wine and foreign spirits, and private wholesale dealers in these commodities would also be able to buy such beer and British spirits as the State might be willing to sell them for wholesale distribution by way of export, supply to hotels, &c., and trade with private customers in wholesale quantities.

*Administrative Machinery.*

- Para. 31-33 and 60-65. 7. The statute would establish a purchasing body, in close relations with, if not a department of, the controlling authority, to conduct negotiations, and a tribunal to settle disputes.

*Method of Purchase.*

as for the purchase of each of the main interests would be  
 1. ed to provide a basis for the settlement of cases by agreement.  
 ases the issues referable to the tribunal. While provision is  
 reference to the tribunal at the instance of either party, the  
 tes that agreement would frequently be attained, and that the issues  
 al would be definite, not at large.

10. Stress is laid on the assistance which should be afforded in carrying out purchase by the materials already collected by the Inland Revenue Valuation Department. Paras. 22-23.

11. The formula for breweries is as follows:—

Ascertain, normally on the trade from 1910 to 1914, and in accordance with rules to be prescribed, the true commercial profit of each concern on a freehold basis, *i.e.*, before charging rents for leasehold properties; capitalise, normally at fifteen years' purchase; write down the result in proportion to the depreciation of capital values generally between the outbreak of war and the time of purchase, the precise ratio being fixed at the time of purchase; and issue stock at whatever price of issue is justified by the denomination selected for the stock, having regard to the current rate of Government credit at the time of issue. Stock so issued constitutes a corpus to be apportioned between reversioners, the brewery, and beneficial tenants of the brewery as may be agreed by the parties or decided by the tribunal; and the share allotted to the brewery is to be apportioned among debenture holders and shareholders roughly according to a guiding formula suggested in the Report. The right of debenture and other priority holders to full repayment preferentially to the holders of the junior securities is to be abrogated by the statute. Paras. 34-36.  
Paras. 37-42.  
Paras. 43-47  
and 50.  
  
Paras. 48-50.  
  
Paras. 53, 54.  
  
Paras. 55-59  
and Appen-  
dix.

This scheme is analogous to, rather than in conflict with, that of the Committee appointed in 1915 under the chairmanship of Mr. Herbert Samuel. Paras. 21-29.

12. The formula for free houses is the same as for breweries, except that no normal multiplier is recommended, and the multiplier would have to be agreed by the parties or fixed by the tribunal in each case. Para. 74.

13. The formula for holders of on-licences is that they receive (a) the value of their stock-in-trade and chattels, *plus* (b) not more than two years' purchase of profits in the case of an annual tenancy, and whatever larger number may be fair in the rare case of a lease with more than two years' unexpired, *plus* (c), if the State does not offer a paid post, a pension on a scale to be scheduled to the statute. If, as may occasionally happen, an on-licensed tenant has a beneficial lease, he will in addition receive something out of the corpus of the freehold. Paras. 75-81  
and  
Schedule.

14. The formula for holders of retail off-licences is the same as for on-licensed tenants, except that there is no pension, and in the case of licences which have changed hands since 1902 the number of years' purchase is not more than three, even if the unexpired term of the tenancy exceeds that period. Paras. 90-98.

#### *Period of Control.*

15. The statute would provide that from a fixed date the acquired concerns should be carried on for account of the State, the former owners receiving their pre-war income until purchase is completed, and that the stock forming the purchase consideration should not be issued piecemeal to individual concerns as their price is ascertained, but in one operation at the end of the control period. Provision is made, however, for immediate cash settlements with licence-holders desiring to commute for a lump sum their pension and compensation rights, where the amount to be paid does not exceed 500*l*. Paras. 71-74.  
  
Para. 81.

#### *Cost.*

16. The pre-war value of the four main interests to be acquired (excluding distillers and rectifiers, compensation for loss of occupation to licence-holders and to other persons engaged in the trade, and miscellaneous compensation items) is estimated at not less than 350,000,000*l*. gross. This represents neither the gross amount of stock to be issued (since the pre-war values would have to be written down at the time of purchase in proportion to the depreciation of capital values generally since the outbreak of war) nor the net capital charge (since credits would arise from the sale of redundant properties). Para. 110.

17. While not discussing the probable return on capital or the general question of financial policy, the Report recommends the issue of a special inscribed stock, redeemable at the option of the Government after twenty years, secured in the first instance on the surplus revenues of the aggregate acquired concerns and their assets, and further by way of guarantee as to interest upon the Consolidated Fund.





LIQUOR TRADE FINANCE COMMITTEE (ENGLAND AND  
WALES), 1917.

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REPORT

OF THE

DEPARTMENTAL COMMITTEE

APPOINTED TO ENQUIRE

UPON WHAT TERMS THE INTERESTS IN ENGLAND AND WALES  
CONCERNED IN THE MANUFACTURE AND SUPPLY OF INTOXI-  
CATING LIQUORS SHOULD BE ACQUIRED BY THE STATE,

AND AS TO THE

FINANCIAL ARRANGEMENTS WHICH SHOULD BE MADE DURING THE  
PERIOD OF CONTROL OF THOSE INDUSTRIES BY THE STATE.

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## WARRANT OF APPOINTMENT.

His Majesty's Government being of opinion that it may shortly be necessary as an urgent war measure to assume control of the manufacture and supply of intoxicating liquors during the war and the period of demobilization and that such control would involve the purchase after the war of the interests concerned in such manufacture and supply—

## I HEREBY APPOINT—

The Lord Sumner,  
 Sir John Bradbury, K.C.B.,  
 Sir Arthur W. Chapman, J.P.,  
 Sir John Harwood-Banner, M.P.,  
 Sir Thomas Hughes,  
 Mr. James F. Mason, M.P.,  
 Sir William Plender,  
 Mr. A. Clavell Salter, K.C., M.P.,\*  
 Mr. Arthur Sherwell, M.P.,  
 Mr. G. J. Wardle, M.P., and  
 The Right Hon. Sir Thomas Whittaker, M.P.,

to be a Committee for England and Wales to inquire into and report upon the terms upon which those interests should be acquired and the financial arrangements which should be made for the period of control.

I FURTHER APPOINT Lord Sumner to be Chairman and Mr. J. S. Eagles to be Secretary to the Committee.

(Sgd.) GEORGE CAVE.

Whitehall,  
 26th June, 1917.

\* Mr. A. Clavell Salter was appointed a Judge of the High Court of Justice on the 12th October, 1917, and took no further part in the Committee's proceedings.

# LIQUOR TRADE FINANCE COMMITTEE (ENGLAND AND WALES), 1917.

## REPORT.

TO THE RIGHT HONOURABLE SIR GEORGE CAVE, K.C., M.P.,  
HIS MAJESTY'S SECRETARY OF STATE FOR THE HOME DEPARTMENT.

### I.—INTRODUCTION.

1. This Committee was appointed on the 26th June, 1917, to enquire into the terms upon which the interests concerned in the manufacture and supply of intoxicating liquor in England and Wales should be acquired, and the financial arrangements that should be made during the period of control prior to the acquisition of such interests, upon the assumption that the Government may be compelled, as an urgent war measure, to assume control of the manufacture and supply of intoxicating liquor during the war and the period of demobilisation, and as a result of taking such control to purchase after the war the interests concerned.

2. We have not therefore considered the questions either of financial or general policy involved in the purchase of the Liquor Trade, nor have we concerned ourselves with the question of control or management of acquired concerns after the completion of their purchase, except in so far as the terms of purchase might be affected and determined by the necessity of securing to the State full liberty in dealing with the property acquired and full protection for its monopoly in carrying on the acquired trade.

3. We realised, however, at the outset of our proceedings, that, in order to deal effectively with the question referred to us, it was essential that we should be informed of the objects and nature of the control, the assumption of which as an urgent war measure was anticipated by His Majesty's Government.

4. The Home Secretary, at our request, explained this matter to us, and we have in addition obtained from Lord d'Abernon, the Chairman of the Central Control Board (Liquor Traffic), and some of the officials of that Board, full information with regard to the effect of the measures of control already adopted, and the steps taken towards actually purchasing breweries and public houses. We have thus been able, in considering the possible exclusion of certain interests from any scheme of purchase, to ask ourselves whether the control referred to would so far disturb or damage a given interest as to involve acquisition and not merely compensation, or whether the acquisition of such an interest would materially assist the attainment of the objects which His Majesty's Government have had specially in view.

5. We have examined all aspects of the question and, in particular, have endeavoured to give every interest likely to be affected the opportunity of bringing before us its special circumstances and point of view.

6. We have been furnished with documentary and statistical material by the Central Control Board (Liquor Traffic) and the Commissioners of Customs and Excise and of Inland Revenue, and with the papers and reports prepared for, and issued by, previous Committees appointed to examine the subject, and have obtained through some of our members and otherwise such published matter as seems to bear directly upon State purchase as applied to the Liquor Trade in England and Wales.

7. We took oral evidence from 50 witnesses on 17 days, and in addition have received a considerable number of written memoranda.

8. Most branches of the Liquor Trade are organised in associations, both local and national, and we invited the attendance of representatives from a considerable number of them.

9. Several members of publicans' associations, representative of all classes of licence holders, attended before us. They stated their views with much candour and ability. On the question of compensation for the suppression of licences their general attitude was that any scheme of State purchase would deprive of their livelihood many men who could not hope to find other occupations, and who ought therefore to receive as compensation a substituted means of living. We have regarded this view as being rather a pointed way of expressing opposition to the whole policy of State purchase than as a contribution to the financial question which compensation involves, and have therefore dealt with this part of the subject on other lines.

10. With one exception, the various associations of brewers preferred not to send representatives. Fortunately, we were able to secure the attendance of a number of professional gentlemen of eminence as accountants and valuers, who, though speaking only for themselves and not as representatives of any interest, were from their long experience so fully able to inform us of the circumstances affecting the trade in beer, that we regret less than we must otherwise have done the absence of members of some of the principal brewers' associations. We feel fairly confident that, though not in possession of the wishes of the brewers at large, we are not to any great extent uninformed as to the trade interests involved.

11. Various gentlemen have favoured us with schemes of purchase prepared on their own initiative. They offered many ingenious and useful features which were the outcome of considerable study of the subject. It must not be supposed that, because we have not actually adopted any of them, we have not found much in them which was suggestive and valuable.

## II.—INTERESTS MAINLY AFFECTED.

12. The interests which will be mainly affected, either directly or indirectly, by a purchase scheme, may be summarised as follows:—

- (a) Breweries, with or without tied or managed houses.
- (b) Free Houses.
- (c) On-Licensed Tenants.
- (d) The Wholesale Trade, concerned mainly with wines and spirits.
  - (1) Importers and Shippers (Wholesale).
  - (2) Holders of Wholesale Licences selling to consumers.
- (e) Holders of Retail Off-Licences including Grocers' Licences.
- (f) Distillers and Rectifiers.
- (g) Hotels and Restaurants.
- (h) Railway Refreshment Rooms, and holders of dining-car and passenger-vessel licences.
- (i) Theatres and Music Halls.
- (j) Clubs.
- (k) Subsidiary Industries, such as Maltsters, Bottlers, Engineers and others supplying raw materials, commodities and implements used in the various branches of the Liquor Trade.
- (l) Cider-makers and makers of British wines.
- (m) Persons dispossessed of their employment, e.g., licence holders in or managers of tied houses, directors and employees.

## III.—THE BREWING TRADE.

13. It is obvious that for England and Wales the brewing trade is the first subject for inquiry. The average annual production of beer in England and Wales for the three years ended the 31st March, 1914, was, in round figures, 31,160,000 bulk barrels. The total number of licensed premises of various kinds for the retail sale of intoxicating liquor is believed to be about 100,000, of which some 90 or 95 per cent. are tied to brewers or belong to or are managed by them. Of these, about 20,000 are retail off-licences, and the remainder on-licences.

### *Brewers not for Sale.*

14. The number of licences granted to persons to brew beer not for sale was 5,567 in 1914-15. Beer "not for sale" is largely brewed on farms for the use of harvesters. Such brewing is not a business—it earns no profit. Experience would show what steps the State would find it necessary to take for the protection of its monopoly, but it does not appear that the case of persons brewing "not for sale" calls for either purchase or compensation.

### *Brewers for Sale.*

15. The number of licences to brew beer for sale in 1914 was 3,745; but as a single brewer may require more licences than one the number of concerns engaged in brewing was somewhat less. Many of these concerns are private companies. There is great variation between one concern and another. Some breweries stand on very valuable sites; most of them are on sites not more valuable than any part of the surrounding area, and there are many intermediate cases. Some concerns have tied houses, and some have none. Some have many tied houses, and some have few. Neighbourhoods also differ, and their differences affect brewery concerns in various ways. Where population is dense and the tied houses are near at hand, the distribution of beer is cheap, quick and simple. Where population is sparse and the tied houses are scattered, the cost of distribution becomes a serious charge, especially as the consumption will probably be low. One district may be prosperous and improving; another stationary, or on the decline. The people's demand for beer may vary according to occupation, locality or social habits. Town differs from country, and one town from another town. Some places have a special water supply. Indulgent of tied houses, some concerns have a large family trade, others as

export trade of importance. Trade marks and trade names and long established reputations all possess their own peculiar features of profit and of permanence. We only dwell on these familiar matters lest, in view of the nature of our recommendations, it might be conceived that we had overlooked or had shirked them. We realise that these variations are infinite. We believe nevertheless that there is a much greater uniformity amongst brewery concerns than might be supposed, and that a normal brewery concern is anything but a mere abstraction.

16. There is, however, one feature, common to most brewery concerns of any magnitude, which, in the extent to which it has been developed, distinguishes them from all other trades. The tied house system links together retail distribution and wholesale manufacture, so as to collect in one hand the advantages of a well-organised trade, viz., certainty of a large and regular output, certainty of widespread and dependable outlets, and a product which enters largely into general consumption.

17. It might seem at first sight that the real property of a concern should be valued separately from the trade part of the concern, and from this the conclusion might be drawn that no common multiplier of the annual profits could be adopted for the purpose of valuing the entire body of the assets as a whole.

18. The purchase to be assumed, however, is the purchase of a going concern, and so long as the concern is carried on the real property assets cannot be taken out of it, as if they were to be disposed of separately. This could only happen upon a break-up of the concern and upon the hypothesis that the trade can no longer be carried on. In such a case, the trade assets would have lost a great part of their value. If the vendor has the advantage of selling both together, what the former loses in the number of years' purchase attaching to it is to a large extent regained in the higher number of years' purchase applicable to the trading element. Sites which, if sold separately for general purposes, would command a higher number of years' purchase, may have to be measured by a lower number when treated as machinery for the sale of a particular commercial product and tied indefinitely to it. On the other hand, a trade which as a free trade competing with all the world would have a low number of years' purchase, may deserve a substantially higher number because it is less exposed to competition and attains higher security through the tie of suitable premises to its manufacturing trade. The vendor cannot have it both ways.

19. Whilst there is a broad difference between real property and trading enterprise, and the security which each affords for the maintenance of profits, and it is useful and may be necessary in valuing concerns for the valuer to bear in mind the number of years' purchase appropriate respectively to the real property portion and to the trade portion of the assets, we are of opinion that the ultimate problem is to merge both in a common multiplier which represents each in a common and permanent relation to the whole. To effect such merger and to select the right common multiplier is no doubt a task of some nicety, but, as will be seen by the recommendations we make on the subject, we believe it to be right in principle and to be well within the capacity of practical and experienced persons broadly informed of the character of the individual undertaking.

#### *Possible Bases of Assessing Compensation.*

20. There are several possible ways of computing the compensation payable to breweries under a purchase scheme.

##### *Assessments to Income Tax, &c.*

21. It has been suggested that there are assessments and returns already in the possession of various public Authorities, upon which a simple and efficient scheme of purchase might be based. There are assessments to Income Tax under Schedules A. and D., assessments to Excess Profits Duty, and assessments to the Poor Rate. In practice the standard of rating varies from district to district, and even from Union to Union. Rating cannot therefore furnish a uniform basis for annual value with a view to purchase. This is true also, though to a less extent, of Schedule A. It has been the policy of the State to treat assessments to Schedule D and its extensions as private matters not to be used except for the adjustment or recovery of such taxes. Moreover, the statutory principles and rules applicable to Schedule D and its extensions proceed on lines which are not identical with those on which commercial profits should be ascertained, and the adjustments which this difference would involve would be of some complexity.

##### *Valuations under the Finance (1909-10) Act, 1910.*

22. The Inland Revenue Valuation Department is in possession of a great mass of materials collected for the purpose of assessing the value of individual premises under the Finance (1909-10) Act, 1910. This work has been carried a long way towards completion. It has been in the hands of expert valuers, who have devoted much time to it. Two of the officials of the Department have appeared before us, and have given us full statements of what has been done and of their views of what can be done. The information which the Department has thus obtained is of great value, as these valuations have been made, provisionally or finally, after separate inspection of each building and after examination of accounts and statements rendered by the parties concerned. It must, however, be remembered that they proceed upon a fixed statutory basis, that of market value as at 30th April, 1909, and that, although they have been completed in a large proportion of cases, they have not yet become binding in more than about a third. They proceed upon the method, commonly adopted for such valuations, of measuring the value of the

brewery in the value of the several tied houses, but they do not include the value of a free, family or export trade done from the brewery direct, which would therefore still remain to be ascertained in each case. Owing to war pressure, the total of the valuations of the separate premises has not yet been cast up, and we regret that we have been consequently unable to use it.

23. The provisional valuations and the materials upon which they rest should be of great assistance in ascertaining the values of concerns for purposes of purchase; on the other hand, as they stand, they can hardly be accepted as absolutely determining values for those purposes.

#### Customary system of detailed inventory and valuation.

24. Many of those who have appeared before us have dwelt upon the superiority of the customary system of detailed inventory and valuation as the best plan for valuing brewery undertakings, and some have asserted that it is the only way of arriving at their true value. It is adopted in practice for ordinary transactions between vendors and purchasers in the way of transfer of particular undertakings, and in that connection may be the best. We, however, have before us an operation, which is the converse of the ordinary way of such transfer, and the same witnesses have concurred in our view that, as applied to the universal purchase of the brewing trade in one operation, the customary method would lead to immense cost, friction and dispute and involve interminable delay. The number of competent and experienced persons available for such work is small; the number required would be large if the work is to be completed within a reasonable time. We have felt, for the above reasons, unable to accept this method as one that would be practicable, at any rate for dealing with the purchase of brewing concerns and the licensed premises forming part of their assets.

#### Capitalisation of commercial profit.

25. The Committee which examined this subject in 1916 reported in favour of purchasing, at the average Stock Exchange prices quoted for the three years preceding the outbreak of war, the debentures and shares of those Brewery Companies, the whole of whose securities were so quoted. They recommended that when the total value of the securities of each of those companies had been thus ascertained the number of years' purchase of the annual net profits which it represented should be calculated, and that the number of years' purchase so ascertained should be used as a guide in determining the appropriate multiplier of the annual net profits of other brewery undertakings, whether limited companies or privately owned concerns, regard being had to Stock Exchange quotations in those cases where some, but not all the securities of a company were quoted.

26. As the number of brewery undertakings which have Stock Exchange quotations for the whole of their capital is comparatively small, although it includes some of the largest and most important in the trade, the method of arriving at values recommended by the 1916 Committee for the great majority of the businesses to be acquired really amounts to fixing a number of years' purchase of the net annual profits as the normal multiplier, with adjustments for special circumstances and abnormal cases.

27. After careful consideration the method which has commended itself to us also as the one most equitable for arriving at the just value of a Brewery as a going concern is that of capitalising the true commercial annual profit that the business is normally capable of earning by multiplying it by a figure representing the fair market value of the security for the maintenance of that profit.

28. We have been able to go more fully into the matter than the previous Committee was able to do, and all the witnesses who have spoken as to the value of Stock Exchange quotations as a criterion of the real value of brewery securities have stated that, owing to the absence in many cases of a free market and other considerations, it would be unfair to take the quotations of ordinary brewery shares as representing their true value, although the same remarks would not apply equally to the quotations of well-secured preference shares, or even at all to well-secured debentures. We have accordingly arrived at the conclusion that we should recommend a definite number of years' purchase as the multiplier for normal cases, instead of leaving that figure to be arrived at by investigating Stock Exchange prices only.

29. The method which we recommend is that of capitalising the true commercial profit that a concern is normally capable of earning by a factor representing the value of the security for the maintenance of that profit. The difficulties of this method are less formidable than they appear, and are far from being insuperable. Exceptional cases may in practice need special consideration, but in our opinion this method is better than any of the other methods that have been suggested.

#### *Method of Purchase.*

30. We recommend the following means for giving effect to the system of valuation which we have decided upon.

#### *Purchasing Body.*

31. The Statute which any scheme of purchase would require should provide for a Purchasing Body which should be empowered to call for any information from the vendors that may be necessary to enable it to estimate on prescribed lines the value of the concerns

to be purchased, with a view to arriving if possible at an amicable settlement with the vendors. Whether it should have any, and what, authority to negotiate with the vendors for a lump sum settlement, or other compromise, in order to expedite purchase and terminate uncertainty, is a matter of policy, but the opportunity for such action would be provided by the communications which would precede any reference of the matter to the Tribunal, with the appointment and duties of which we deal later on (paras. 60-65).

32. The Purchasing Body should have authority to call for properly authenticated accounts in forms to be prescribed under the statute, to have discovery and inspection of the vendors' books in their discretion, and to obtain any information that may be considered necessary for ascertaining the financial position and the true commercial profits of the concerns, so as to reduce them to a common standard on a freehold basis. The accounts should contain such details as would enable accountants experienced in the Liquor Trade to adjust the average profits of a concern during the datum period to a common standard of net commercial profit which would be applicable to all but exceptional cases.

33. The information to be given should include:—

- (1) A detailed Trading and Profit and Loss Account for each year in a form to be prescribed.
- (2) The Balance Sheets actually published and also Balance Sheets prepared in a form to be prescribed, as at the beginning of the datum period and as at the close of each financial year forming part of it.
- (3) An Adjustment Statement between the profits as shown in the prescribed Profit and Loss Accounts and the figures shown in the published accounts.
- (4) A detailed statement of all debenture issues, mortgages and loans, with particulars of the properties charged and the terms as to redemption and sinking fund.
- (5) Particulars both of the licensed and of the unlicensed premises, shewing whether freehold or leasehold, and the cost, amounts written off, rents receivable, outgoings, book values and values for assessment to Schedule A.
- (6) Schedules of the fixed and loose plant.
- (7) Statements of the loans to tenants and investments outside the business.
- (8) Particulars of the stock and the method adopted for valuing it.

#### *Ascertainment of Commercial Profit.*

34. The profits would be taken before charging rent, income-tax or debenture interest, and the subject of the purchase would, as regards hereditaments, be not merely the vendors' own interest but, in addition, when that interest is a limited one, the interests of all third parties in reversion. Otherwise, the State might be greatly hampered in any policy of concentration or suppression of the different acquired concerns by inability to renew a tenancy or to modify its terms, or by the continued existence of obligations attaching to premises of which it desired to be relieved. The valuation and purchase being directed to the fee simple, the appropriate portion of the total consideration would be allotted thereafter in separate negotiations or proceedings among the parties interested.

35. We recommend that the 4 years 1910-11, 1911-12, 1912-13, 1913-14, be fixed as the datum period over which the annual profits of a concern would be averaged—such datum period to terminate in each case with the date in 1914 at which the concern in question was accustomed to make up its accounts.

Our reasons for adopting this period are shortly as follows:—

- (1) These years form a fairly normal and complete period beginning with the operation of the Finance Act, 1910, and ending with the passage from peace to war.
- (2) It would be inequitable for either the State or the trade to derive advantage in a compulsory purchase from the special and disturbing conditions resulting from the war and the legislation and control which the war has made necessary.

36. Conditions arising only after the outbreak of war do not in our view constitute grounds for the modification of the datum period, but we think that an exception might well be made in cases where it can be proved that special circumstances occurring during the years that have been selected prevent them from being in any particular case a fair basis for ascertaining an average profit before the war.

#### *Multiplier for Capitalising Commercial Profit.*

37. The question of the selection of an appropriate multiplier representing the number of years' purchase which, in a normal concern or in one reduced to a normal standard by adjustment of the accounts, would reflect the value of the security for the maintenance of the rate of profit ordinarily to be expected from capital invested in such a concern has engaged our most serious attention.

38. We have considered the possibility of recommending a uniform multiplier applicable to all cases, as also the possibility of valuing hereditaments and liquid or trade assets separately, each with its own multiplier in every case. We have come to the conclusion that neither of these methods is calculated to attain the object we have in view, viz., that of finding a multiplier which would be fair in the case of a normal concern or in that of one reduced to a normal standard by adjustment of the accounts, and at the same time provide on the one hand for circumstances affording exceptional security for maintenance of profits and for exceptional

values whether in hereditaments, trade marks or trade names, and on the other hand for unwarred appearances of security or prosperity or for an approaching future of dwindling trade and diminishing profits.

39. We have accordingly adopted the principle of selecting a multiplier which we believe would be fair in the case of a normal concern or in that of one reduced to a normal standard by adjustment of the accounts, but which would in exceptional cases be liable to be increased or diminished in order to meet the special circumstances of a particular concern. For the purpose in view, a normal concern may be defined as an undertaking reduced to a freehold basis, with maintainable and protected earning power equivalent to the average true commercial profit derived from carrying on the business in the datum period.

40. It would be impracticable to enumerate all the different circumstances which might justify a departure in the upward or downward direction from the normal multiplier, but, in our opinion, they might readily be reduced into classes, as we think that in somewhat varying degrees individual cases within these classes would possess common features sufficiently alike to bring them closely within common rules.

41. As examples of such classes, but not as exhaustively enumerating them, we may suggest:—

- (a) Exceptional sites of an annual value higher if not used for the purposes of a brewery or licensed premises than they possess when so used.
- (b) The extent to which the value of the real property owned in proportion to the total assets is unusually high.
- (c) The extent to which assets are included which have not yet come into bearing or been fully reflected in the net profits.
- (d) The small proportion of tied or managed houses owned by a brewery, or their absence altogether.

42. After carefully considering all the information before us, we have come to the conclusion that 15 years would, according to the standard of capital values prevailing immediately before the outbreak of war, be a fair multiplier to be adopted in the case of the purchase of a normal concern, or in that of one reduced by adjustment of accounts to a normal standard on a freehold basis. In arriving at the above figure, we have made a full allowance for this adjustment of the accounts to a freehold basis, and also for the fact that the assumption by the State of the monopoly of carrying on the Liquor Trade would impose upon the parties dispossessed a permanent disability comparable to a perpetual covenant not to compete, and that vendors may be put to some cost and trouble in changing investments.

43. The above conclusion that 15 years' purchase of the true pre-war commercial profits of the undertakings to be acquired represents their fair value as previously defined as at the outbreak of war does not of course imply that the amount so arrived at would be a proper purchase price to be paid in cash if paid at the present time. Indeed, in arriving at their present cash value, it is clearly necessary to take into account the marked depreciation of the capital value of all incomes, whether derived from real property or securities generally, which has taken place since July, 1914. This depreciation, which has operated in regard to all fixed interest and dividend-bearing securities, varies in the case of different classes of securities but is in all cases of very considerable amount. The fall may in some cases be not quite so marked in regard to the ordinary shares of industrial undertakings generally, but it is nevertheless very appreciable in most cases in which the post-war dividends are at the same rate as pre-war distributions.

44. It follows, therefore, that an income which on the pre-war basis of capitalisation was worth 15 years' purchase is at the present moment worth a much smaller number.

45. If the proposal were for an immediate cash purchase we should recommend that the basis should be such number of years' purchase of profits as would be the present equivalent of 15 before the war.

46. Such a proposition may at first sight appear to involve hardship to the vendor. But such hardship is only apparent, since the smaller amount of cash to be received could under present conditions be re-invested to produce a gross income of the same amount and having equivalent security as the larger amount would have produced had it been invested before the war, while the capital value of the securities which the larger amount would have purchased before the war is now correspondingly reduced by the general depreciation of capital values.

47. If, on the other hand, it were proposed to effect an immediate purchase not for cash but by giving in exchange a Government Stock, we should recommend that the equation should be arrived at by ascertaining the present cash value of the undertakings on the above basis and issuing to the vendor such amounts of Government Stock as would—if sold at current market prices—produce a sum of money equal to the present cash value so ascertained.

#### *Form of the Purchase Consideration.*

48. Whether the Stock should be a  $3\frac{1}{2}$ , 4 or 5 per cent. Stock would then become merely a question of convenience and not one of principle, since the higher rate of interest would be compensated for by the smaller capital liability created and *vice versa*.

49. A rate of interest justifying a price of issue only slightly below the nominal value would be better finance from the point of view of the Treasury, but on the other hand a low rate of



interest with a correspondingly reduced price of issue might be more popular with the existing holders of brewery securities as offering an opportunity of recovery in capital value.

50. Our proposals, however, do not involve the immediate exchange of brewery securities for Government Stock, but, as stated below, the carrying out of such an exchange at a future date, before which further changes in the interest yields of Government securities and in the standard of capital values generally are probable. We think therefore that it would be premature to lay down at the present moment any precise formula to govern the operation, and that the denomination of the Stock to be issued, the price of issue and the amount of abatement to be made from the pre-war value of the undertakings to be acquired in respect of general depreciation of capital values should be left to be determined in accordance with the actual conditions existing when the exchange comes to be effected.

51. The purchase consideration should, in our opinion, be satisfied by the creation and allotment of a special inscribed stock redeemable at the option of the Government after 20 years, secured in the first instance on the surplus revenues of the aggregate acquired concerns and their assets, and further by way of guarantee as to interest upon the Consolidated Fund. A suitable sinking fund should be provided out of the surplus revenues of the acquired concerns after payment of the interest.

52. Complaints might arise if the Stock were issued to vendors at different dates or on the final determination of the price in each particular case, and as we anticipate that all the cases would be concluded before the completion of demobilisation brought the period of interim control to an end, we think that the Stock should be issued simultaneously to all the parties entitled to it.

#### *Apportionment of the Purchase Consideration.*

53. If the State is to acquire the assets, and to be free to deal with them as it may require, it will be necessary to fix a day after which debenture-holders are not to assert legal rights against those assets in specie. The assertion of such rights must be transferred to the purchase consideration. Where they are entitled to have their security realised, and have already taken effective proceedings for the purpose, their claim to full satisfaction out of the purchase consideration applicable to their security in priority to other parties should be recognised. For any case in which a receiver for debenture-holders is in possession, special provision will have to be made. Before the rights of debenture-holders, or other holders of priorities can be worked out, that portion of the purchase consideration which represents the purchase of the interests in real property vested in third parties outside the brewery concern must be ascertained and set aside. This portion should, in default of agreement between the parties, be calculated in the first instance by the officials of the Purchasing Body, with liberty to all third parties interested to appear before the Tribunal.

54. If a sufficient amount to cover the aggregate of all such interests is once set aside and is secured, the determination of the rights of the holders of debentures and other priorities over the residue need not stand over pending the detailed ascertainment of the amounts due to the various third party interests, but may proceed independently.

55. We think that in the apportionment of this residue two cardinal considerations must be borne in mind:—

(1) A debenture-holder, unlike a mortgagee, is not in a position to claim repayment at par by giving a short notice to call in his money. Leaving out of account the rare case of short term debentures, the position generally of a debenture is that it is a loan for a long or an indefinite time, during which the lender cannot call in his principal, but can only realise his capital by sale of his individual holding. In practice, most issues of debentures are redeemable only at the option of the borrower, and the money lent is only an income-producing investment substantially secured, and it is commonly regarded in this light by investors of all kinds, including trustees. For the State to require a company to sell its concern when it did not seek to sell it, but meant, and was well able, to carry it on, and at the same time to leave the debenture-holders free to claim repayment of their capital in full, as if the business had been voluntarily given up or compulsorily liquidated on account of inability to meet obligations, would at present values give debenture-holders a premium which they never could have got if the State had not intervened.

(2) As already stated, we think that the purchase consideration in the case of a brewery concern must take the form of an issue of Government Stock and not of cash. Between such a Stock and any brewery debenture there is and will continue to be a difference in respect of marketability and of security of income, which must always be in favour of the Government Stock. In the case of the best secured debentures it may not be large, but it is appreciable; in the case of the worst secured debentures it is great. The gradations between these two classes are numerous, and depend upon the terms of each individual issue and the circumstances of the borrowing concern. In no case can it be right that, as the mere result of the adoption of State Purchase, a premium should be made to the debenture-holder of an improvement in his security which, if measured in money, would amount to an appreciable and even a handsome bonus.

56. We therefore consider that any uniform rate would be arbitrary as a mode of expressing the ratio between the security of a single Government Stock and that of the several debenture issues to be given up. Neither can we now fix a scale of gradations expressing the relations

of various debenture issues to the Government Stock in terms of the security for the maintenance of the interest which they respectively afford. We cannot prescribe an arithmetical formula for the future computation of the relation which a Stock to be created hereafter under unknown conditions of credit would bear to existing securities which vary much now and may well vary more and differently then.

57. We recommend the following arrangement as the best solution of the problem. As the holders of the vendor company's issues of debentures and shares are the parties concerned in getting the residue of the purchase consideration distributed, the burden should be upon them to hold class meetings, and to agree if possible upon a scheme for their satisfaction out of the total residue, subject to the Tribunal's confirmation. Failing agreement, any class should be at liberty to go before the Tribunal, at the same time citing the others to appear and assert their rights, and to ask the Tribunal to decide the distribution.

58. The principle upon which the Tribunal should proceed is applicable alike to the various issues of debentures and the various classes of preference shareholders. It is that in lieu of the stock which they will surrender to be extinguished each class of holders shall receive such an amount of the new stock to be created as will yield the same annual gross income as they received in the datum period, subject to such a diminution of that average income as will, in the opinion of the Tribunal, under the circumstances affecting each issue or class, substantially counter-balance the superiority in the value of the security of the new stock which is to be allotted over that of the particular stock which is to be surrendered and extinguished. Debentures which fall due for repayment at fixed dates or over fixed periods, whether the Company issuing them has or has not provided a Sinking Fund, possess, generally speaking, a higher value (which is reflected in a measure in Stock Exchange quotations when available) than stocks which are irredeemable or only redeemable at the Company's option. The liability of the Company to repay a fixed sum at a fixed date, and the existence of any funds specifically earmarked for the purpose, should be taken into account in computing the present value of the debentures.

59. It would be for the Tribunal to consider what materials it should take into its consideration, such as prices quoted for transactions effected on the Stock Exchange, or the prices at which actual transactions have taken place elsewhere, or other ascertainable data. We attach to this Report by way of Appendix a formula, together with an explanatory note, in regard to the distribution of that portion of the purchase consideration which accrues to the debenture-holders and shareholders of the vendor concern. It is not suggested that the proposed formula should be strictly adhered to in all cases.

#### *Appointment of a Tribunal to Determine Disputes.*

60. We recommend the appointment of an impartial Tribunal empowered to decide judicially any issues as to datum period, amount of true profit, appropriate multiplier, or otherwise which might ultimately be in difference between the vendors and the Purchasing Body, or any differences that might arise with regard to the distribution of the purchase consideration between the parties interested. We think it essential that the Tribunal should have three characteristics:—

- (1) It should be independent of the Purchasing Body and its staff.
- (2) It should, in composition and procedure, be a business Tribunal.
- (3) It should act judicially, after hearing evidence and argument so far as might be necessary.

61. Beyond this it is enough to say that it is to be hoped that it would conduct its business with the minimum of technicality. It would, of course, follow its own previous decisions, apply the existing law, and be guided by the documentary and other evidence before it, but, with the assistance of the expert staff which it would require, it ought to be able greatly to limit discussion of details and to simplify and shorten its proceedings.

62. The Tribunal might, if necessary, consist of more than one division, but these divisions should not be appointed for special localities or districts. All the cases of a particular class, wherever arising, should come before the same division, otherwise want of uniformity in the decisions might arise.

63. There should be represented on the Tribunal legal training and experience, knowledge of valuation, and experience in the preparation of accounts and in general commerce and finance.

64. There should be an appeal to the High Court, but only by special case on specific questions of law to be definitely formulated. On questions of fact, the decision of the Tribunal should be final. We think that the allowance of costs should be in the discretion of the Tribunal, but should be treated as exceptional and not as a matter of course.

65. Some machinery must be provided to deal with questions of fact arising upon claims of persons entitled to compensation for loss of employment. Such claims might be dealt with either by a separate division of the Tribunal, or by some other body appointed *ad hoc*. It is eminently desirable that sittings should be held in different parts of the country for this purpose, since the cases would often affect persons who could ill afford to come up to London.

*The Scheme in actual working.*

65. It will thus be seen that the method of valuation which we recommend for dealing with breweries in England and Wales consists partly of statutory regulations, partly of expert examination of the figures with or without consultation between the representatives of both Vendors and Purchasers, partly and finally of the presentation of any matters ultimately found to be in difference to an impartial Tribunal for its determination.

66. In practice we should expect that, the statutory accounts having been duly rendered, they would be examined by the expert assistants of the Purchasing Body, and the net average profit arrived at would be communicated to the vendors for their acceptance, comment or dissent. If the Purchasing Body took the view that a sub-normal multiplier was required it would state its ground, so too would the Vendors if they claimed a super-normal multiplier. We believe that agreement would frequently be attained, and increasingly often as the decisions of the Tribunal in the earlier cases become known and appreciated; but failing agreement, the questions in issue would be submitted to the Tribunal, which after any necessary arguments would decide the datum period, the true net profit, the appropriate multiplier, or other matter in dispute, and so adjudge a purchase price.

68. The effect of the method of valuation which we recommend, would be that the State would acquire the entire assets of a brewery concern, stepping into its shoes as regards liabilities to creditors other than debenture-holders, in consideration of an issue of stock. Those interested in the old concern, the ordinary shareholders, preference shareholders, and debenture-holders, as well as the reversioners to the real property assets, would then stand entitled to the consideration, and would be dispossessed of their business and assets. Except under arrangements hereafter specifically mentioned, all the assets are intended to pass to the State, including export trade, trade-marks, stocks, cash, book debts and secured loans.

69. We think that except by mutual consent of both the vendors and the State no asset used in and for the purpose of the trade should be excluded from the purchase. In some cases, real property has been purchased with a view to some ultimate advantage expected to accrue to the trade, such as extensions of premises or the exclusion of competitors, though not yet yielding a trade profit; in others, surplus funds have been employed in the purchase of real property or Stock Exchange investments. As to these, we think that, if special reasons can be shown for doing so, vendors should have the option to exclude them from the sale, the income derived from them as a factor in the calculation of the purchase consideration being included in, or excluded from, net profit according as the State does or does not acquire them. The State should have the option to exclude from the purchase assets not employed in the trade when they consist of easily realisable securities which could be distributed among the shareholders rateably without inconvenience or delay.

70. Changes will have occurred in a brewery concern between the end of the datum period and the date at which control commences. We think they should be dealt with by means of two Balance Sheets; one would show the assets to be acquired and liabilities to be taken over as at the end of the datum period; the other would show the actual assets and liabilities existing at the commencement of the period of control. Any increase or diminution arising in the interval would be apparent upon a comparison of the two Balance Sheets, and it would then be possible to compute the net sum to be added to or deducted from the total purchase consideration.

*Arrangements during the Period of Control.*

71. We assume that from the date on which it takes control the State would have pledged itself to purchase all the breweries and licensed houses. Much dissatisfaction and hardship would be caused if the action of the State in electing to suppress some concerns and to continue others should result in any pecuniary difference in the treatment of those interested. It would not be just that concerns which are continued should be left to trade on their own account, while those suppressed should have to look only to interest retrospectively paid on the Stock ultimately issued to them. No doubt some considerable time must elapse between the commencement of State control and the end of the process of ascertaining the purchase price for the whole of the concerns acquired. In order to avoid the disparities already alluded to, which might otherwise occur in the treatment of individual concerns, it will be better, in our opinion, to provide for this intermediate period by separate financial arrangements.

72. As obligations to pay interest on debentures must be provided for, and as many persons whose money is invested in brewery concerns are wholly or partly dependent on the income derived therefrom, it will be necessary to make provision for maintaining the continuity of distribution to those interested, so far as possible, until the process of purchase is complete. We think that a day should be appointed (not earlier than the day to be fixed, as already recommended, for the transfer of debenture-holders' rights against the assets of a concern to the corpus of the purchase consideration), which should fix the dividing line between the period in which, in all cases, concerns are carried on for account of those interested, and that in which, in all cases, they will be carried on for account of the State.

73. We recommend accordingly that down to the appointed day the concern should be carried on entirely for the benefit and at the risk, so far as earning profit is concerned, of the vendors. Whatever true profits they earned they would keep. After that day, any profits earned would be earned for the State, and the State would pay, by suitable instalments, to those interested in the concern an annual amount equal to the true average net profit ascertained for the datum period before mentioned, leaving them to satisfy debenture interest and pay dividends out of it.

74. Since any excess or short payments could be settled by deduction or addition at the time when the purchase consideration is satisfied, and since from a very early date enough would be known of each concern to make it possible to reckon the true net profits in question fairly closely, we think that there would be no difficulty in authorising those in control to retain out of the actual profits a sufficient sum for this purpose.

*Arrangements should part of the United Kingdom be excluded from the Purchase Scheme.*

75. In the event of a purchase scheme taking effect for England and Wales, but not for Scotland or Ireland, we think it would be necessary, nevertheless, to acquire licensed houses, stocks of liquor and branches of trade situate or carried on in England and Wales, though belonging to concerns in Scotland or Ireland.

#### IV.—FREE ON-LICENSED HOUSES.

76. The purchase consideration of free on-licensed houses can be arrived at on the same broad principles as we have recommended for brewery concerns, though differences of method are involved. The pre-war value of the freehold should be arrived at as follows. There should first be ascertained the true rack rent calculated on the basis of the rent which the premises undivested of the landlord's fixtures and fittings would command if let in a free market under favourable conditions, the tenant paying rates, insurance and compensation levy. This rack rent (which will not necessarily be the rent paid by the actual tenant) will as a rule be determined on the same principles as the Poor Rate or Schedule A Assessment, except that where the conditions are such that a property would command a higher rent upon lease than upon a tenancy from year to year, such higher rent should be taken as the basis for computation. From the true rack rent so ascertained should be deducted mortgage interest, if any, and the balance should be capitalised by a multiplier appropriate to pre-war conditions; inasmuch as free houses vary greatly in character and situation, no useful purpose would be served by our recommending a normal multiplier which might well prove to be inapplicable in a large proportion of the cases; the multiplier must be agreed by the parties or settled by the Tribunal according to the actual circumstances of each case. When the actual time of purchase arrives, the capital sum so ascertained should be scaled down proportionately to the depreciation of capital values between the outbreak of war and the completion of purchase, as already recommended in the case of breweries. The sum finally resulting constitutes a corpus to satisfy all the property interests, that is to say the freeholder and any holders under beneficial leases or tenancies, and should be distributed among them upon the principles recommended in paragraph 53 above; there then remains the personal goodwill and chattel interest of the occupier, whether he is the owner of the premises or not. Any profit which the trading occupier may be found to enjoy, after debiting, in addition to all outgoings, (1) the difference between the true rack rent and the rent actually paid, (2) interest on capital, and (3) the value of his own services and those of unpaid members of his family engaged in the business, may be regarded as attributable to his personal goodwill, and should be capitalised at not more than two years' purchase in the case of a tenancy with less than two years unexpired, while in the case of occupational tenancies with longer unexpired leases the additional security attaching to any personal goodwill should be recognised by a suitable increase in the number of years' purchase. The resulting capital sum should be paid to the trading occupier in addition to any sum to which he may be entitled out of the corpus as holder under a beneficial lease or tenancy, and his chattels and stock in trade should be taken over at a valuation. He will also receive, under our recommendations, compensation for loss of employment in accordance with the schedule, should no offer of equivalent service be made to him by the State.

#### V.—TENANTS OF TIED HOUSES.

77. Licence-holders have certain property interests, chiefly stock-in-trade, utensils, furniture and fixtures, and also an interest in their licence, which, whatever its legal position may be, has in fact a real value, which varies with the personality of the individual. In addition, they may be regarded as old servants of the trade, who would have to look for a new occupation on its acquisition by the State.

78. State purchase would involve valuation of and payment for the above-mentioned chattel-interests in the usual way. Compensation for the extinction of the licence is comparable to purchase of goodwill and should be measured by so many years' purchase of the net profits made. In ascertaining those profits the licence holder should be debited in addition to rent and other outgoings with a fair sum for the value of his own services and those of unpaid members of his family, when employed in the business, as well as with ordinary wages paid, and also with interest on any capital involved. In the usual case of the tenant on annual or shorter tenure, or of a tenant on a lease for a longer term of which less than two years are unexpired, the number of years' purchase of the net profits so ascertained should not, we think, exceed two. The compensation clauses under the 1904 Act provide that the licence-holder is to have not less than one year's purchase, although under them he has every chance of getting a new licence elsewhere. The maximum of two years' purchase of profits in respect of goodwill should not be regarded as applying to the case of a tenant on lease with two years and upwards unexpired.

79. Where a tied tenant holds a beneficial lease, his interest in the premises in respect of its unexpired residue should not form the subject of a separate assessment of compensation in his favour. It is really part of the interests acquired, when the assets of the brewery concern as a whole are purchased by the State, and, in distributing the corpus of the consideration among parties interested, the Tribunal would put the appropriate value on this interest and satisfy it before handing over to the reversioner his portion of the purchase consideration.

80. In respect of the loss of his accustomed occupation by reason of State purchase of the whole of the trade, we think that a licence-holder should further be treated on the same basis as employees who lose their old employment. The scale of compensation which we think he should receive in this respect will be found set out in the Schedule which deals with the question of compensation for loss of employment.

81. We think that if a licence-holder desires to receive his compensation, both for personal goodwill and for loss of employment, in a lump sum, and not under the above-mentioned scheme, he should be at liberty to apply to the Purchasing Body, and it should be authorised and directed to negotiate with him for an immediate commutation for cash, and to pay him the agreed sum accordingly, if the amount to be paid does not exceed £500.

## VI.—WHOLESALE LICENCES.

82. Wholesale dealers' licences authorise the sale at any one time to one person of not less than two gallons or one dozen reputed quart bottles of spirits, wine or sweets, or not less than four and a half gallons or two dozen reputed quart bottles of beer or cider.

83. The evidence given before us by representatives of the Wine and Spirit Association and other indicates that the character of such businesses is of extreme complexity, and presents problems somewhat different from those with which we have already dealt. It may be convenient to class wholesale dealers as follows: (a) shippers and agents, that is persons selling imported liquor for re-sale to middlemen, who in turn supply them to the consumer; (b) vendors who supply liquor directly for consumption, in not less than the statutory minimum quantities.

84. These classes however are not mutually exclusive nor are their trades confined to wine and spirits. A number of holders of Excise Wholesale Licences hold Excise Retail Licences too; thus they can supply a customer's wants from a single bottle to as many dozens as his cellar will hold. Many in class (b) may have come trade in beer as well as wines and spirits. All sell British spirits as well as foreign. Some, and it may be many, who fall within class (a) have some private customers, to whom they sell for consumption, though always in not less than a dozen bottles. The members of class (a) are not actually very numerous, they are few in comparison with the members of class (b), but their businesses are very various and often very large. Some own large properties abroad—vineyards, warehouses and so forth. Some re-ship wines and spirits from this country on a large scale. The quantities, and still more the values, of stocks maturing in bond involve large figures. Some, again, hold agencies for foreign principals. Of the total capital involved it would be very difficult, if not impossible, to form any just or approximate estimate, in the absence of accounts which are not available to us. It is certainly large; some idea of its magnitude may be obtained from figures given by the Customs and Excise Department.

85. In 1914 11,637,316 gallons of wine were retained for home consumption in the United Kingdom, and the importation into England and Wales was 10,793,000 gallons. Among the principal countries of origin are Portugal, France, British Possessions and Italy. It is plain that very large economic interests in the Dominions and in Allied countries are concerned in this part of the Liquor Trade. The quantity of imported spirits, lodged in bonded warehouse in England and Wales was in 1914 7,284,000 gallons. It is safe to say that the purchase of the trade as a whole, albeit a trade in intoxicating liquors, would be a substantial addition to the cost of the scheme. Having regard to the minimum quantity of beer saleable under a wholesale beer licence, it is probable that the beer trade of many wholesale liquor merchants is an inconsiderable proportion of their total trade. It is further to be observed (1) that large parts of the assets, notably those abroad and the export portions of the trade, would on various grounds be unsuitable for State acquisition; (2) that the selection, blending and preparation of wine presents problems different from and more delicate than those involved in brewing; (3) that the cost of compensation for severing the domestic portions of these businesses and assets from the foreign portions would be hard to reckon and heavy in amount, and that the domestic trade, if acquired, might not be successfully carried on when divorced from the rest; and (4) that this part of the Liquor Trade in its larger form stands to a considerable extent outside those exigencies of war which are understood to be especially urgent at the present time. The exercise of State control does not appear to disturb the wholesale trade so fundamentally as to necessitate its purchase. We therefore recommend that wholesale licences should not be acquired except those which are held by breweries or other concerns which must be acquired as falling within another category and those which are at present held in conjunction with a retail licence where the business cannot be successfully carried on without that adjunct.

## VII.—RETAIL OFF-LICENCES.

### 1. Reasons for acquisition.

86. Retail off-licences authorise the sale at any one time to any one person of not more than two gallons or one dozen reputed quart bottles of spirits, wines or sweets, or not more than 4½ gallons or two dozen reputed quart bottles of beer or cider. Spirits under the spirit retailer's off-licence must not be sold in open vessels or in any quantity less than one reputed quart bottle, nor wine under the wine retailer's off-licence in open vessels or in any quantity less than one reputed pint bottle.

87. Retail off-licences may be conveniently divided into (a) those attached to premises where nothing but a retail off-trade in liquor is carried on, of which many will be tied to breweries; (b) those attached to premises where a trade in groceries or other goods is conjointly carried on, some of which will be tied to breweries; (c) those attached to premises where a business in intoxicants under a wholesale dealer's licence is conjointly carried on, of which few, if any, will be tied to breweries. Of the 20,000 retail off-licences in existence, 12,600 approximately are so-called grocer's licences, falling within class (b). We have no means of estimating how many of the wholesale licences are conjoint with a retail off-licence.

88. We have considered and rejected the possibility of excluding from purchase any of these three classes of retail off-licences. The principle is clear, that, if the State acquires the right of manufacturing beer and spirits and of supplying them wholesale, and if it also acquires and undertakes the retail distribution of them, it must do so on some complete plan, devised to give effective control over and protection for the undertakings so acquired. There would be a serious breach in the safeguards of the scheme, if the State's retail distribution, say of British spirits, was left exposed to the large and almost unlimited competition of retailers of foreign spirits down to the smallest quantity. Nor must it be forgotten that in acquiring on-licences the State will acquire and pay for the right conferred by the on-licence of retailing for off-consumption. Again, State control of the State trade would be merely illusory if the sale of all intoxicating liquors in open vessels for consumption off the premises were not taken entirely into State hands.

89. These considerations point to the conclusion that some division must be made in the trade of distribution for off-consumption, the trade on one side of the line being acquired and that on the other not. Whether the existing control under the system of Permits and Bonded Stores, and the existing Licensing and other statutes, may in the future need to be modified or supplemented, is a matter on which we need offer no opinion. It seems to us that beyond a certain line purchase is not at present required, since all that is needed can probably be attained by an effective form of State regulation and control. The drawing of that line is rather a matter of practical convenience than of principle. We think the best line is to be found in the existing provisions as to Dealers' or Wholesale Excise Licences, which permit the sale to a single customer in a single transaction of a quantity as small in the case of wine, spirits and sweets as one dozen reputed quart bottles, and in the case of beer two dozen. We therefore recommend, broadly speaking, the exclusion from purchase of wholesale dealers' licences and the acquisition of all retail off-licences. We recommend consequentially that the statute should enact that no further retail off-licences should be granted.

## 2. *Terms of acquisition.*

90. Premises used for the sale of intoxicating liquor under retail off-licences do not have to be specially adapted to the sale of that commodity, though there may be exceptional cases. We do not therefore recommend that the freehold of off-licensed premises should be generally acquired by the State, but only that in exceptional cases the Tribunal should be authorised to allow the cost of re-adaptation to other purposes, and that the licence-holder should be compensated for the loss of his licence in any case.

91. The terms of compensation for the acquisition of the business conducted under a retail off-licence should be the purchase at a valuation of the trader's stock of intoxicants, fixtures, utensils-in-trade, and other chattels owned for the purpose of carrying on a business under the licence, and in addition the payment in the case of an annual or shorter tenancy of not more than two years' purchase—the amount which we recommend for on-licences and subject to the same charges in account—of the profits attributable to their business. In considering the case of leases with two years and upwards unexpired, we call attention to the fact that retail licences granted since 1902 are revocable at the State's discretion. We therefore recommend three years' purchase only as a rigid maximum in those cases where the licence was granted to the present holder later than 1902. Licences however granted before 1902 which still remain in the same hands are practically guaranteed by the State during the holder's lifetime, and for this reason in certain cases of this description a higher number of years' purchase than three might be equitable.

92. As regards the so-called grocer's licences, the principle of acquisition does not apply to trade in articles other than intoxicating liquors carried on along with the trade in them. The State cannot be recommended to acquire such businesses at large. In particular cases the vendor may be able to prove that the non-liquor business cannot be successfully maintained without the licensed business, in which case compensation should be paid for severance, unless the Purchasing Body elects to buy the business as a whole. We think further that compensation for the severance of one part of the business from the rest cannot be measured by any formula fixed in advance. It would be best determined in the light of subsequent experience.

93. As regards retail licences held conjointly with a wholesale licence we recommend that such joint tenure should for the future be prohibited by legislation, and that existing retail off-licences so held should be acquired on the terms recommended for other retail off-licences. The vendor should have the option of selling the entire business, wholesale as well as retail, to the State, or of retaining the wholesale business without compensation for the severance from it of the retail business. We may here add that a certain number of wholesale dealers hold retail on-licences conjointly with the wholesale licence. Such an on-licence should be acquired by the State upon the same principles as are recommended in the case of wholesale and retail

off-licences held conjointly. Where a retail licence is severed from the wholesale licence, the wholesale business being continued in private hands, the State need hardly acquire any part of the stock-in-trade.

#### VIII.—DISTILLERS AND RECTIFIERS.

94. From the evidence which we have taken, it appears that there are in England and Wales only 8 distilling concerns and about 25 rectifying concerns. Though by law distilling and rectifying cannot be carried on in the same building, in some cases and on a considerable scale the same concern carries on both trades, and their separation would give ground for substantial compensation. In these trades the tied house feature is absent, though there are cases where, with or without a charge upon the licensed house, a loan is made to a licence holder, who covenants that during the currency of the loan he will buy his supply of spirits only from the lender.

95. We think it inexpedient to make any recommendation upon the subject of purchasing the businesses of distillers and rectifiers in England and Wales, pending the completion of the reports of the Committee appointed to consider those questions for Scotland and Ireland. The distillation of spirits is more important in those countries than it is in England and Wales, and it is obvious that the matter should be treated on a uniform principle in all parts of the United Kingdom, though we must not be understood to recommend that the business of rectifiers must necessarily be dealt with in the same way as that of distillers.

#### IX.—HOTELS AND RESTAURANTS.

96. Although both "Hotel" and "Restaurant" are terms covering establishments of many different kinds, we do not think it necessary to attempt any precise definition of either. Part I. of the third schedule to the Licensing Consolidation Act, 1910, furnishes a test for hotels, namely, that the premises should be structurally adapted to be used, and should be mainly used *bond fide* for the reception of guests and travellers desiring to sleep on the premises. For restaurants there is no similar provision. As has been said in the case of the wholesale wine trade, the measures of control which it is understood may be required by the exigency of the present time may not cause such damage or disturbance to the business of hotels and restaurants as to involve their purchase, nor are economies to be looked for from their acquisition similar to those which might be made in the beer trade during the pressure of the war. Their management by the State presents some special difficulties, and on the other hand, without venturing to recommend specific measures of control, we think that the existing law, or further legislation, might provide the State with means of regulating their business in so far as the protection of its newly-acquired trade might require.

97. We do not therefore make any recommendation as to terms of acquisition for hotels and restaurants, or parts of them, with two exceptions as below:—

- (1) Many hotels have in the same building, and as part of the same business, places intended for the sale of liquor, often called vaults, shades or bars. These are common both in the Metropolis and in large provincial towns. They can often be separated from the rest of the building with little, if any, structural alteration. Virtually, they are public-houses, and as such their business should be acquired. The principle of the terms of acquisition should be the capitalisation, by an appropriate multiplier to be agreed between the parties or determined by the Tribunal on the merits of each case, of the profits on the business actually done in that part of the premises, after deducting apportioned management expenses and interest on capital. For the protection of the State's trade we think further that the business done at general bars or smokeroom bars forming part of an hotel and not acquired by the State, should be confined to selling liquor at prices not below the State's corresponding standard prices, and only to persons *bond fide* staying in the hotel for themselves and for their guests, not to members of the outside public. Persons *bond fide* resorting to an hotel or restaurant for the purpose of a meal should also be allowed to be served with liquor in connection therewith. Whether particular persons are *bond fide* guests or customers is a question of fact which would be determined by justices in such a manner as to prevent evasion of the law. If this restriction of the business done in hotel bars could be proved, after some substantial time of trial, to have resulted in actual loss, it should be made the subject of a moderate compensation.
- (2) The other exception would arise if a purchased brewery concern happens to have among its assets a licensed house which falls within the definition of hotel as above. In such case the house, though an hotel, would be included in the State purchase along with other licensed houses.

#### X.—RAILWAY REFRESHMENT ROOMS, DINING-CAR AND PASSENGER-VESSEL LICENCES.

98. Similarly we think that we need not recommend terms for the acquisition of railway refreshment rooms or of the business of supplying intoxicating liquor on dining-cars or steamboats, provided that, as in the case of Hotels and Restaurants, the supply is limited to persons

who are *bond fide* travelling by the railway or steamboat as the case may be. In these cases also, it would be necessary to fix minimum prices, below which the sale of the liquor would not be allowed, for otherwise a considerable danger would arise of underselling in competition with the State's retail houses. In the case of railway refreshment rooms, the question of compensation for loss of profit by the cessation of sale of intoxicants to non-travellers might be dealt with on the lines suggested with regard to Hotels and Restaurants, and we recommend accordingly.

#### XI.—THEATRE AND MUSIC HALL LICENCES.

99. Where bars for the sale of intoxicating liquors exist in theatres, music halls and similar places of entertainment, we think that measures of control may be devised which make it unnecessary to recommend terms of purchase. The State might well find it necessary to fix minimum prices below which liquor could not be sold, but the theatre or music hall would be at liberty to sell liquor at any price it elected above the minimum fixed by the State, and it would seem that compensation is unnecessary.

#### XII.—CLUBS.

100. We have taken evidence from officials of the Club and Institute Union, and the National Union of Liberal Clubs, and have received a Memorandum from the Association of Conservative Clubs. The number of clubs affiliated to these organisations is about 3,700, and the total number of registered clubs of all kinds (that is, clubs where intoxicating liquor may be supplied) probably exceeds 8,000.

101. There may be some doubt whether a scheme of State purchase could be effectively worked, if the registered clubs, being so numerous, were to retain the financial interest in the distribution of liquor which at present they derive from the purchase of supplies at wholesale prices, and their distribution to members at retail prices. The evidence has established that many clubs depend for their continued existence on the income derived from this source.

102. The position of Clubs is anomalous. They are bodies of persons, purchasing liquor among other things for quasi-domestic consumption, whose arrangements may be adversely affected by the working of a scheme of State purchase and control. They do not carry on any business; they do not fall under the category of licence-holders. There is therefore no going concern for the State to acquire and no extinguishment of a licence for which the State can make compensation. Clubs cannot be left out of any scheme of State control of the liquor trade, but we have not to consider any question of management of the trade after acquisition, and the question whether the State would find it necessary to take any steps which would adversely affect the income of clubs is a question of management. Should such steps be necessary, the claim, if any, must be for compensation only.

103. Some members of the Committee apprehend that after the conclusion of State purchase it may be found that it would be highly advisable that proprietors of hotels, restaurants, railway refreshment rooms, dining-cars, and theatre and music-hall bars, and also clubs, should obtain their supplies of beer and spirits through and from the State authority, and that they should have no appreciable financial interest in the sale and supply of them at minimum prices. This, however, appears to be a question of management not directly referred to the Committee.

#### XIII.—OCCASIONAL LICENCES.

104. In connection with occasional licences it is obvious that no question of purchase or compensation arises.

#### XIV.—MISCELLANEOUS MANUFACTURERS OF BRITISH LIQUORS.

105. We do not for the present recommend the acquisition by the State of businesses producing British wines or cider. Regulations would probably provide adequate protection in respect of low alcoholic strengths, with penalties for non-observance.

#### XV.—ALLIED TRADES AND SUBSIDIARY INTERESTS.

106. There is a large number of trades connected more or less intimately with the liquor industry. It has been urged upon us, particularly in connection with the malting trade, that when an industry at present supplies various customers with implements, raw materials or commodities used in the various branches of the liquor trade, the fact that under State purchase those customers would be reduced to one, namely, the State itself, gives rise to a right to receive compensation. We cannot accept this view.

107. The argument put forward by the maltsters is that many breweries own maltings, which on acquisition of the breweries would become the property of the State like the other assets; that the State would then enter into competition by means of its own maltings with the outside malting trade, and would probably favour and develop its own maltings to the disadvantage of



ordinary maltsters. We cannot admit that if the State carries on some enterprise it may not properly manufacture for itself materials which that enterprise requires, but must give out contracts for it to existing trades which supply such articles. The grievance could, in our opinion, be met by a declaration by the Government that, for a period of years, it would continue to supply its wants from its own maltings and from outside maltsters respectively in the same ratio in which the wants of the brewery trade were supplied at the time of purchase. Further than this we are not prepared to go.

#### XVI.—PERSONS DISPOSSESSED OF EMPLOYMENT.

108. Obviously, if the State were to acquire all the breweries and all the public-houses in England and Wales, a very large number of persons will lose their occupations by the closing of redundant breweries and houses, and the consequent concentration of operations. It is true that many, though not all, would enter or have the chance of entering the service of the State in similar capacities; but in many cases there would be a change of status, and many persons would be dispensed with altogether. We attach to this report a schedule shewing in detail the respective scales of compensation proposed which are based in principle on Civil Service Rules. Compensation, if assessed at or under £500, should be paid in cash.

#### XVII.—APPLICATION OF A PURCHASE SCHEME TO WALES.

109. Since the year 1881 the Sunday Closing (Wales) Act, which broadly speaking provides for the closing on Sunday of all premises in which intoxicating liquors are sold by retail, has been in operation throughout Wales. Inasmuch as our general proposals will apply equally to any variation in the extent of the trade or the amount of profits consequent on the operation of this statute in the Principality, we do not think that the Welsh case presents any features that call for special consideration or treatment.

#### XVIII.—ESTIMATE OF COST.

110. It is impossible for us to ascertain with any approach to completeness the outlay involved in State Purchase on the lines above discussed, as the materials are incomplete and the expert opinion is by no means uniform. According to the best judgment that we have been able to form, we think that the gross cost of acquiring breweries with all tied-houses on a fee simple basis, stocks in trade, and other assets; free houses on a like basis; the stock in trade, fixtures, utensils and furniture of on-licence holders and compensation for goodwill; and businesses carried on under retailers' Excise licences for consumption off the premises—including goodwill, stock, furniture, fittings, &c., may be estimated for England and Wales at not less than £350,000,000 on a pre-war basis of valuation. This does not include the cost of acquiring the production and wholesale distribution of spirits, or of compensation for loss of occupation to licence-holders and other persons engaged in the trade, or miscellaneous compensation, for example, for severance of business (*see also* para. 111, Section II), or for adaptation of premises to suit State management. On the other hand, the figure referred to is the estimated gross cost, and does not take into account the scaling down of the stock to be issued to a post-war basis of value or the proceeds derivable from sales of redundant properties.

#### XIX.—SUMMARY OF RECOMMENDATIONS.

111. We summarise our principal recommendations as follows:—

1. The following interests should be acquired:—

(a) Any business carried on under a licence to brew beer for sale, including the fee simple in possession of all properties in which the owners of the business hold an interest for the purpose of carrying on their trade and all other assets held for that purpose (paras. 34 and 68-70), but with options (para. 69) as to the exclusion from purchase of assets not so held.

(b) Any business carried on under an ordinary retail on-licence, together with the fee simple in possession of all properties where such business is carried on, excluding any such business as is carried on in an hotel or restaurant as defined in the Third Schedule to the Licensing (Consolidation) Act, 1910 (paras. 76-81). Any business, however, carried on in shades or vaults of an hotel or restaurant (para. 97 (1)) should be acquired.

(c) Any business carried on under a retail off-licence (paras. 86-93).

We provide for the acquisition in special cases of non-liquor businesses of licensed grocers, and of businesses conducted under wholesale licences, inseparable from businesses under a retail licence in the same ownership (paras. 92 and 93).

We leave over the question of acquiring businesses of distillers and rectifiers, pending the completion of the reports of the Committees appointed for Scotland and Ireland (para. 95).

2. The pre-war value of breweries and free on-licensed houses should be arrived at by (i) the fixing of a datum-period for the ascertainment of the average annual true commercial profit (paras. 35 and 36); (ii) the determination, on the facts disclosed

during that period and in accordance with rules to be laid down, of the true profit of the concern on a freehold basis (para. 34); and (iii) the application to that profit of an appropriate multiplier, for which we propose 15 years' purchase in normal cases for brewery undertakings. In the case of free on-licensed houses, and of brewery undertakings which present exceptional features, the number of years' purchase would in default of agreement be settled by the Tribunal on the merits of each case (paras. 37-42, and 76).

3. The actual purchase price should be settled when the time for completion of the transaction arrives by writing down the pre-war value ascertained as above by an amount appropriate to the depreciation of capital values generally which has taken place between the outbreak of war and the time of completion (paras. 43-50).
4. The purchase price should be paid in Government stock, subject to arrangements for the payment of small amounts in cash (paras. 48-51, 81, and 108).
5. The purchase price will in regard to each undertaking constitute a capital sum, the distribution of which, failing agreement among those concerned, should be effected in accordance with our recommendations under the direction of the Tribunal (paras. 53-59 and 76).
6. The tenant of on-licensed premises (tied or free) should receive, in addition to whatever sum, if any, he may be entitled to out of the corpus in respect of his lease or tenancy being beneficial, the value of his stock and other chattels, and compensation in respect of personal goodwill, which in the case of an annual or shorter tenancy or a lease with less than two years unexpired should not exceed two years' purchase of the profits attributable to such goodwill (paras. 76-81).
7. Holders of retail off-licences should receive the value of their stock and other chattels and, where the residue of the tenancy does not exceed two years, not more than two years' purchase of the profits attributable to the retail business in intoxicants; where the residue of the tenancy exceeds 2 years or the trading licensee is the freeholder, 3 years' purchase of profits in respect of goodwill should be a maximum, except in the case of licences granted to the present holders before 1902 (paras. 80-83).
8. Persons losing employment, including holders of on-licences, should be compensated in accordance with the schedule (para. 108).
9. The following administrative machinery would be required:—
  - (a) A Purchasing Body (paras. 31 to 33).
  - (b) A Tribunal to settle any issue between the Purchasing Body and the vendors (paras. 60 to 64).
  - (c) Questions of fact arising on claims for loss of employment should be settled either by a division of the Tribunal or by a body constituted *ad hoc* (para. 65).
10. The intermediate arrangements between the assumption of control and the completion of purchase should be as follows:—
  - (a) A common date should be fixed for the assumption of control over all concerns to be acquired, as from which they should be conducted for the benefit of the State, the former owners receiving, until the purchase-consideration is paid, their average annual pre-war income derived from the concern (paras. 71-74).
  - (b) The Stock should not be issued piecemeal as the purchase-price of individual concerns is ascertained, but in one operation on completion of the task of ascertainment (para. 52).
  - (c) The statute should provide for purchase before control is assumed (para. 71).
11. After control is assumed, the exigencies of management by the State of the businesses which it has acquired may make it necessary to apply to other businesses not acquired administrative measures of a character to raise compensation questions. Among the interests likely to be so affected, are maltsters (para. 107), theatre and music hall bars (para. 99), clubs (paras. 100-102), and hotels, restaurants, railway refreshment rooms, &c. (paras. 96-98), in so far as their incomes may to any appreciable extent be adversely affected by restriction of sales to *bona fide* guests or travellers.

112. We desire to express our high sense of the ability and industry with which Mr. J. S. Eagles has discharged his duties as Secretary to the Committee.

(Signed) SUMNER.  
JOHN BRADBURY.  
ARTHUR CHAPMAN.  
J. S. HARMOOD BANNER.  
THOS. HUGHES.  
J. F. MASON.  
WILLIAM PLENDER.  
ARTHUR SHERWELL.  
GEO. J. WARDLE.  
THOS. P. WHITTAKER.

J. S. EAGLES,  
Secretary.

October 31st, 1917.

## SCHEDULE.

## COMPENSATION FOR LOSS OF EMPLOYMENT.

## EMPLOYEES PROPER.

*Class A.*

Pensions at the rate of 1/120th<sup>6</sup> of average annual salary for three years up to date of taking over for each year of continuous employment in the licensed trade.

*Class B.*

Gratuities of one week's pay for each year of continuous employment in the licensed trade.

*Class A to include:—*

(1) Salaried whole-time technical officers.

(2) Other salaried whole-time permanent officers who prove that their existing conditions of employment carry a reasonable expectation of pension on retirement.

*Class B to include:—*

(1) Salaried whole-time officers not included in Class A.

(2) Whole-time employees on the wages list.

No compensation in any case to be payable if an offer of equivalent State employment is made and refused. If such offer is made and accepted no compensation to be payable unless and until the employee retires on account of age or infirmity or his employment is terminated by the State for a reason other than personal misconduct, when the employee would receive the same compensation in respect of his pre-State employment as he would originally have received if State employment had not been offered him, in addition to any retiring allowance or gratuity in respect of his State service to which the terms of his State employment might entitle him.

No compensation in any case to be payable in respect of less than ten years' continuous employment in the licensed trade unless the applicant satisfies the Tribunal that he is possessed of specialised knowledge or aptitude which cannot be turned to account outside the licensed trade, or is likely by reason of his age or the state of his health to have difficulty in finding other employment.

Any pensioner who accepts State employment at a rate of remuneration lower than that on which his pension was calculated to draw during such employment only so much of his pension as may be necessary to make up the difference between his current remuneration and that on which his pension was calculated. Any pensioner accepting State employment at a rate of remuneration not less than that on which his pension was calculated to draw no pension during such employment.

The Tribunal to have power to make such addition to the rate of pension under Class A as may appear equitable in the case of any applicant who proves to their satisfaction that he had a reasonable expectation of a higher pension from his existing employer.

## LICENCE-HOLDERS, ETC.

Licence-holders trading on their own account, and the wives and families of such licence-holders employed for their whole time in the licence-holder's business, should be compensated for loss of employment, subject to the above conditions, on the amounts debited for personal remuneration in their profit and loss accounts as settled for the purpose of compensation for loss of profit. The licence-holders themselves should receive pensions under Class A, and wives and families employed in the business gratuities under Class B. In the case of licence-holders, continuous occupation as licence-holders only should be reckoned for pension to the exclusion of any previous employment in the trade in other capacities.

There will be a certain number of cases of licence-holders who became licence-holders late in life who would have difficulty in finding employment and for whom pensions on the Class A scale together with their compensation for loss of profits will be insufficient to provide maintenance. The Tribunal might be authorised to make special benevolent grants in such cases either in the form of lump sums or of special additions to pension.

## DIRECTORS.

Three years' purchase of total fees to Directors to be distributed by the Board as they may agree. Whole time Managing Directors, as many years' purchase of remuneration on average of three years before retirement as they have been continuously employed as Managing Directors, with a maximum of 5 years' purchase.

Compensation from public funds for loss of employment to be strictly limited to (a) persons whose businesses are acquired and (b) persons standing to such persons in the relation of servants to masters. Such persons as consulting chemists, auditors, public-house valuers and other professional men whose practices mainly depend on the licensed trade will probably in many cases continue to be called in by the State or be offered salaried posts.

\* *Note.*—In the event of a person who has been employed in the public service in an unpositionable capacity being given a pensionable post it is not unusual to count half his unestablished service for pension. It is, therefore, suggested that 1/120th of salary for each year passed in the licensed trade (or half the normal Civil Service pension scale) would be a reasonable basis for calculation in ordinary cases.

## APPENDIX.

The following formula for apportioning the purchase consideration among the various classes of brewery security-holders is suggested as a guide to the Tribunal in normal cases:—

The number of years' purchase to be applied to profits naturally depends on the security that there is for such profits. The better the security, the larger the number of years' purchase, and vice versa.

If, following this principle, the profits of a Brewery Company are assumed to be £10,000, it is evident that the first £1,000 is covered ten times over; the second £1,000 is covered nine times over; the third eight times over, and so on. Therefore, the number of years' purchase to be applied to the first £1,000 should be greater than that applied to the second £1,000, and the number of years' purchase applied to the second £1,000 should be greater than the number of years' purchase applied to the third £1,000.

If an instance is assumed in which the fair multiplier would be 15 years' purchase of the profits taken as a whole, these profits can be divided into a number of equal portions and a different number of years' purchase applied to each, varying with the security that there is for the maintenance of the profits—arriving, however, at an average number of years' purchase of 15.

For instance, if the whole profits of the Brewery Company are divided into 11 different portions, 20 years' purchase can be applied to the first eleventh; 19 years' purchase to the second eleventh, and so on until the last eleventh, to which ten years' purchase would be applied; on average 15 years' purchase would be applied to the whole.

The following example will illustrate the application of the principle:—

Let it be assumed that the Capital of a Brewery Company is as follows:—

5 per cent. Debentures .. .. .	£80,000
5½ per cent. Preference Shares with priority as to capital .. .	£80,000
Ordinary Shares .. .. .	£80,000
	<hr/>
	£200,000
and that the Profits before Charging Debenture Interest are .. .. .	£11,000
The Profits absorbed by Debenture Interest are therefore .. .. .	£4,000
The Profits absorbed by Preference Dividend are .. .. .	£3,000
while the Profits available for Dividends on the Ordinary Shares are .. .. .	£3,100
	<hr/>
	£11,000

Note.—As explained in paragraph 59 of the Report, the proposed formula is not intended to be strictly adhered to in all cases, and adjustment of the results obtained by application of the formula would often be required to meet the consideration that, all other circumstances being equal, a debenture is a better security than a preference share. It is rather intended as a guide when the circumstances of a particular brewery company (e.g., as regards capitalisation, class of properties, nature of trade, etc.) may be regarded as normal.

The total purchase consideration would be	
£11,000 multiplied by 15 .. .. .	= £165,000
1/11th of the Profits .. .. .	= £1,000
1,000 × 20 =	£20,000
1,000 × 19 =	19,000
1,000 × 18 =	18,000
1,000 × 17 =	17,000
£4,000 —————	£74,000 Purchase consideration for Debenture holders.
1,000 × 16 =	16,000
1,000 × 15 =	15,000
1,000 × 14 =	14,000
900 × 13 =	11,700
£3,900 —————	£56,700 Purchase consideration for Preference Shareholders.
100 × 13 =	1,300
1,000 × 12 =	12,000
1,000 × 11 =	11,000
1,000 × 10 =	10,000
£3,100 —————	£34,300 Purchase consideration for Ordinary Shareholders.
£11,000	£165,000
Total profits as above.	Total purchase consideration as above.

It is to be noted that the "range" selected need not be confined to that suggested above. Taking once more the example of an undertaking to which the 15 years' purchase basis would apply, it would be feasible to divide the profits into 13 equal portions, the maximum and minimum multipliers in the formula becoming respectively 21 and 9. The average would remain as before at 15, but the resulting apportionment as between the various classes of securities would differ. The range would therefore require to be selected with some care on the merits of each individual case.

## III.—SCOTLAND.

## ABSTRACT OF REPORT.

The Committee devote the first part of their Report to a general consideration of the history of the liquor trade in Scotland, in the course of which they emphasise the important effect of the Scottish Temperance Act, 1913, and suggest that the State, before assuming control, must accept an obligation to purchase upon statutory terms. PAGES. 1-45.

The Committee's enquiries have clearly been thorough and detailed.

*Interests to be Acquired.*

It is contemplated that the State should take statutory power to acquire (1) breweries; (2) distilling and rectifying concerns; (3) the interest of wholesale dealers, including property interests in the premises owned by blenders, but excluding the property interests of bottlers, wine merchants, &c.; (4) the goodwill of holders of retail on-licences, but no property interest in the premises; and (5) the goodwill of the holders of retail off-licences, again without property interests. PAGES. 124, 125, 61-65, 99-100, 101, 109-113.

The State is recommended to exclude from purchase the businesses of maltsters and other allied traders, and hotels, restaurants, and clubs. A basis of purchase for the interest of hotels in the sale of drink is, however, suggested, in case such purchase is considered necessary. PAGES. 40-55, 115-122.

Under these recommendations the State would become possessed of all the assets necessary for the production of Scottish beer and Scottish whisky; it would also have bought up the goodwill of the distribution trade (apart from hotels, &c.) and could reorganise it at its own discretion. Its right, however, to the use of premises for the sale of its product would not be one of ownership, but one of lease or tenancy from private owners. The owner of licensed premises would be bound, if required, to let them to the Government at the rent reserved under the covenant existing at the date of assumption of control, or, if there was no such covenant, at such rent as, failing agreement, might be fixed by arbitration. If the Government did not require the use of the premises, the licence would be discontinued, and the owner would receive the capitalised sum of the rent reserved for the unexpired period of the lease, or of the difference between that rent and the rent obtainable for the premises as dislicensed.

*Administrative Machinery.*

The statute would establish a purchasing body to conduct negotiations and a panel of arbiters to settle disputes, with such arrangements as to costs as to penalise frivolous or vexatious claims. PAGES. 91-95.

*Method of Purchase.*

General formulae for the purchase of each of the main interests are provided, with an opportunity for reference of exceptional cases to arbitration, subject to the provisions as to costs. The sums arrived at by application of the formulae do not include the value of stocks of liquor, which are to be separately assessed and paid for. The word "profit" in the formulae is defined as income-tax assessment over the three last complete years before the war, viz., 1911-1913. PAGES. 77-84.

(a.) The formula for breweries is a number of years' purchase of profit varying from seven to nine, with a normal of eight. PAGE. 131.

(b.) For distillers a number of years' purchase of profit varying from six to eight, with a normal of seven. PAGE. 144.

(c.) For rectifiers thirteen years' purchase of the annual value of their premises as found in the valuation roll, plus four years' purchase of profit in respect of goodwill. PAGE. 146.

(d.) Blenders, as for rectifiers. PAGE. 146.

(e.) Bottlers are to receive their chattel interest at a valuation plus not less than one nor more than three years' purchase of profit. PAGE. 154.

- Para. 122. (f.) Wine merchants are to receive their chattel interest at a valuation and three and a half years' purchase of profit in respect of goodwill.
- Paras. 85-90. (g.) Retail on-licensed traders are to retain their interest in their premises, and are to receive from two to four years' purchase of profit in respect of goodwill, plus their chattel interest at a valuation, and release from trade contracts.
- Paras. 107-109. (h.) Retail off-licensed traders are to be treated as retail on-licensees, except that the number of years' purchase of profit in respect of goodwill is from one to three.
- Paras. 139-142. (i.) Stocks of liquor, whether wholesale or retail, are to be taken at market value at the date of purchase, less 80 per cent. of the excess of that value over the pre-war market value—an application of the principle of Excess Profits Duty.

*Cost.*

- Paras. 150-155. The cost of acquisition upon these terms is estimated at £1,000,000.

LIQUOR TRADE FINANCE COMMITTEE (SCOTLAND), 1917.

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# REPORT

OF

## THE DEPARTMENTAL COMMITTEE

APPOINTED TO ENQUIRE

UPON WHAT TERMS THE INTERESTS IN SCOTLAND CONCERNED  
IN THE MANUFACTURE AND SUPPLY OF INTOXICATING  
LIQUORS SHOULD BE ACQUIRED BY THE STATE,

AND AS TO THE

FINANCIAL ARRANGEMENTS WHICH SHOULD BE MADE DURING  
THE PERIOD OF CONTROL OF THOSE INDUSTRIES  
BY THE STATE.

## WARRANT OF APPOINTMENT.

HIS MAJESTY'S GOVERNMENT being of opinion that it may shortly be necessary as an urgent war measure to assume control of the manufacture and supply of intoxicating liquors during the war and the period of demobilisation, and that such control would involve the purchase after the war of the interests concerned in such manufacture and supply,

I HEREBY APPOINT :—

The Right Honourable LORD SHAW of Dunfermline,  
 WILLIAM ADAMSON, Esq., M.P.,  
 Sir JOHN COWAN,  
 CHARLES KER, Esq., C.A.,  
 JOHN M. MACLEOD, Esq., M.P.,  
 R. S. MEIKLEJOHN, Esq., C.B.,  
 Sir THOMAS MUNRO,  
 WILLIAM YOUNG, Esq., M.P.,

to be a Committee for Scotland to inquire into and report upon the terms upon which those interests should be acquired, and the financial arrangements which should be made for the period of control.

I FURTHER APPOINT :—

The Right Honourable LORD SHAW to be Chairman and NORMAN M. MACFIEBSON, Esq., S.S.C., to be Secretary of the Committee.

ROBERT MUNRO,  
*His Majesty's Secretary for Scotland.*

SCOTTISH OFFICE,  
 WHITEHALL, 26th June 1917.



## COMMITTEE ON LIQUOR TRADE (SCOTLAND).

## REPORT.

TO THE RIGHT HON. ROBERT MUNRO, HIS MAJESTY'S SECRETARY FOR SCOTLAND.

SIR,—

1. The terms of the remit made are as printed. All those named in the remit accepted office.

## PRELIMINARY.

2. It became almost immediately evident that it was impossible for the Committee to conduct the investigations necessary to enable it to obtain materials for a report merely by sittings in London. Sittings were also accordingly held in Glasgow, Edinburgh, Dundee, and Aberdeen. The representatives of the trade manufacturing and supplying intoxicating liquors asked further time to prepare the evidence to be laid before the Committee, and this request was granted. The sittings, which ended at Aberdeen on Thursday, 2nd August, were accordingly resumed at Edinburgh on Thursday, 23rd August, and continued in that city—much evidence being obtained from the trade at these sittings. Finally, in London, in October, further evidence was taken, and thereafter meetings were held to consider the terms of this report.

## TERMS OF REMIT AND SCOPE OF COMMITTEE'S RESPONSIBILITY.

The Committee now begs to transmit to you the report which it has framed.

3. As arising out of the terms of the remit made, the Committee begs to note that :—

(1) It is in no way responsible for any question of policy in regard to the matter of State purchase. The opinion on that subject which is recorded in the remit is the opinion of His Majesty's Government. That opinion is stated in this form, "That it may shortly be necessary as an urgent war measure to assume control of the manufacture and supply of intoxicating liquors during the war and the period of demobilisation, and that such control would involve the purchase after the war of the interests concerned in such manufacture and supply."

(2) With regard to the question of control, the Committee is charged only with reporting upon "the financial arrangements which should be made for the period of control." The Committee would have accordingly considered it beyond its province to enter into any questions as to the form in which control should be assumed, or in regard to the practical details and shape in which such control should be carried out.

(3) By the terms of the remit, however, the question of control cannot be dissociated from that of State purchase: for His Majesty's Government's opinion is expressed to this effect, namely :—"Such control would involve the purchase after the war of the interests concerned in such manufacture and supply." It is this kind of control—a control which would involve purchase after the war—that the Committee has been asked to have in its view in making its inquiry and report.

## "CONTROL WHICH WOULD INVOLVE PURCHASE." COMMITTEE'S OPINION.

4. The Committee may first deal with the point just mentioned. It may be well at once to state the opinion upon it which, after full consideration, it has formed. A control which involves such a purchase would substantially be a control of other people's property by the Government, coupled with an intimation that they must part with that property after it had for a time been controlled. If the management of the Drink Trade were management of a trade which proceeded upon simple commercial lines that were not the subject of interference by legislative or departmental action, or by changes involved in local administration, it might be possible to figure a feasible case of control with purchase afterwards, as that case would simply be one of taking over the management on old lines, continuing those lines, and postponing the date of acquisition.

5. But in regard to control of the Liquor Trade, the case—and what is no doubt meant by the Government in this remit—is entirely different. Control of the Liquor Trade, to be effective in the sense indicated, must be control which permits of complete freedom of action on the part of the Controller. And this freedom of action may result in the suppression of many places of business, the consolidation of many others, the complete change in schemes of management, and, stated generally, an alteration at the hand and according to the will of a Central Authority which views the Scottish drink problem as a whole as well as considers the wants of particular localities, and which has complete freedom to adjust local conditions, including businesses and their management, to those wants. Any control short of that would be devoid of either business or public advantage.

6. But if such control be exercised, it is manifest that when purchase comes to be made after the

war, purchase of the property then would require to proceed upon a largely imaginary footing, namely, on the footing that the period of disfranchisement of the licensees and owners, with all that had occurred during that period, was to stand out of the reckoning so as to arrive at the first element of the calculation, namely, a pre-war purchase datum. And the very things reckoned out would in many cases reappear in the process of getting the interests justly assessed as at the date of purchase; while in many other cases it is easy to figure confusing claims of compensation owing to the alterations or loss produced on the subject of sale before the date of actual acquisition. The Committee sees no advantage in a proceeding of this character.

7. Furthermore, it desires to observe that the position of licensees and others interested in the trade, both of manufacture and of supply, would be, from a business point of view, quite misshapen under such an arrangement. Nominally remaining proprietors of their concerns, they would not be allowed to manage them, either to their own advantage or with a view to prospective interests. They would have no effective control over the concern; they would merely stand by and observe what the prospective purchaser and interim possessor was making of the subject of the transaction. The Committee cannot see how the interests of either the State or of society could be promoted by any arrangement of the kind. In short, if the State is to purchase these interests at all, the postponement of the transaction for a period of control seems not to be justified, by any considerations of a social or a commercial character. If purchase is to take effect, it should take effect as from the date of control.

8. The Committee accordingly finds itself unable to recommend any financial terms upon which control should be assumed during the period intervening before the transaction of purchase is concluded. It is quite possible, of course, that the transaction of purchase might be settled, with the payment of the price postponed till after the war and demobilisation, and with fair interest paid upon that price in the meantime by the State to the sellers. This would be unobjectionable from a business point of view, and it would leave the hands of all parties free—on the one side, the State having complete power of controlling what would then be its own; and on the other, those interested in the trade being free, knowing their financial position, to enter upon other spheres of industry.

#### CONTROL: SUBJECT ILLUSTRATED BY ADMINISTRATION OF CENTRAL CONTROL BOARD.

9. The Committee is confirmed in this view by the action of the Board of Control, which was recently appointed by His Majesty's Government. In pursuance of the Defence of the Realm (No. 3) Act, 1915, and Regulations thereunder of His Majesty in Council, that Board has issued Orders applying to about nine-tenths of the area of Scotland. Over that wide area it has, *inter alia*, greatly limited the hours of trade, and has forbidden trading and credit. The Orders first issued were seven in number, and they are set forth at length in the second report of the Board (Cd. 8117). But apart from general regulation there were two areas where active and effectual control in the full sense had to be taken in hand. These areas were Gt. Gt. and Invergorran. In both of those areas it was found that this Board, although appointed purely for emergency purposes, was unable to accomplish the control which would be effective except by the exercise of powers of acquisition of the premises controlled.

10. It may be well to note how this stands. It is regulated by Section 1 (2) of the Defence Act already cited. That sub-section gave power to His Majesty in Council to issue regulations, and (3) reads as follows:—

"For giving the prescribed Government authority" (the Central Control Board (Liquor Traffic) was appointed that authority) "power to acquire compulsorily or by agreement, and either for the period during which the regulations take effect or permanently, any licensed or other premises or business in the area or any interest therein so far as it appears necessary or expedient to do so, for the purpose of giving proper effect to the control of the liquor supply in the area."

11. The necessity for the Board being vested with such powers, and the advantage of their being put into operation, became immediately evident. What has been done thereunder appears from the reports issued by that Board. As illustrating, however, the dependence of control upon the actual right and power to buy up the businesses, it may be mentioned that in the Gt. Gt. district, after a survey, it was found that it was necessary to add to the area to be operated upon, and to exercise powers of purchase over the entire territory so increased. One instance may suffice to indicate the nature of what was done. In the town of Annan there existed, in addition to hotels and public-houses, no less than eight licensed grocers' premises. What the Board of Control did was to buy up the whole of those businesses, to extinguish the licenses in every one of them, and to set up one place of business in the burgh for off-sale. The instance is only cited as showing that the exercise of the power of purchase permits of such a new situation being created as can enable control in a proper business sense to be effected.

12. It is quite easily possible to figure the confusion which would have resulted had the Board of Control been placed in a position in which immediate purchase was forbidden, and control yet demanded, together with the necessity for an ultimate clearing up of the situation after such control was ended so as to effectuate purchase at that later date. Looking over the operations of the Board of Control in the two districts already mentioned, the Committee finds strong confirmation of the opinion which it has formed, that if purchase by the State is in view, an interregnum of control, apart from acquisition but with a view to subsequent purchase, is unwise, and would be confusing and impracticable.

13. Before leaving this topic the Committee desires to observe that the control pointed to is something essentially different from the issue of Regulations or Orders of a general character for the conduct of the drink business in localities or throughout the country. Such Regulations or Orders are now familiar to the public. Affecting as they may do, say, the hours of trading, prescribing the materials to be sold, or forbidding trading or sales upon credit, they in one sense are of a constraining or controlling character. They may have their great value and uses; and they may alter and modify business done; but so far

as the work of the present Committee is concerned, they do not involve subsequent purchase, and do not fall within the remit.

14. The question before the Committee is thus confined to the important topic of what the terms and conditions of State purchase of the liquor trade in Scotland should be, should Parliament resolve upon such a transaction.

#### THE STATE VIEWED AS PROSPECTIVE BUYER.

15. Under the terms of inquiry and report, the position of the trade was substantially that of prospective sellers. This being so, the Committee made a communication to the Government to the effect that in its view it might be advantageous if the Government itself, acting through the Treasury, would come before the Committee and frankly adopt the position of prospective purchaser.

16. It would then have been open to the Committee to consider the case of purchase and sale as presented from both sides, and to form and state an opinion on the business proposition thus presented. The Government, however, did not see its way to accede to this request. The idea of the Committee, accordingly, that it might obtain some view, at least a general view, as to what the Government's opinion was as to the principles of adjustment as well as of the amount involved in the transaction which was contemplated, could not in this form be satisfied.

17. But the Government placed at the command of the Committee the services of Mr D. N. Cotton, Chartered Accountant, Edinburgh, and the Committee desires to record its sense of the value of his assistance in the analysis of statistics and accounts placed before it.

18. It was also thought right to consider the question from a different point of view than that of ascertaining the terms of the purchase by a mere criticism of the demands made by the prospective sellers.

19. Mr Blair, the chief valuer of licenses in Scotland for the Inland Revenue Department, laid before the Committee the results of careful and elaborate analysis of the amounts paid on the head of goodwill of licensed businesses, as such goodwill was fixed and assessed for the purpose of the payment of death-duties. Certain further information was also obtained from the Income Tax Authorities. Incidentally, facts were also elicited as to prices paid in private transactions; and the Secretary of the Board of Control, together with two valuers, one Mr Wallis and the other Mr Fraser, both gentlemen of the highest skill, put the Committee in possession of the principles and results in regard to the not inconsiderable number of licensed businesses acquired by that Board. In this way the Committee is able to express the opinion that it has obtained much light on the subject of its report, and light derived not by a presentation of the case from the two extremes, but from actual dealings as between the trade, on the one hand, and the State itself on the other. It may, indeed, be a question whether results so obtained are not safer by the latter method than by that of arbitrament between two sides, already mentioned.

#### RELATION OF STATE TO LIQUOR TRADE IN SCOTLAND: (1) GENERAL.

20. The position of the liquor interest in Scotland in its relation to the State is in many essential particulars strikingly different from that in England. It is unnecessary in this Report to enter upon many of the details of such difference. But the situation of the licensee for the sale of intoxicating liquor in Scotland in respect to his rights and the nature of his property under the license, and also in respect to the numerous restrictions under which his trade is carried on, appears to the Committee to be relevant to this inquiry, and it accordingly begs to remind you, in general terms, of how the facts and history of these topics stand.

21. A synopsis of these was made in the Report of the Peel Commission, issued in the year 1899. Following upon that Report, the English statutes of 1902 and 1904 and the Licensing (Scotland) Act, 1903 were passed. But the last-named statute did not satisfy the public demand throughout Scotland, which followed in particular upon various recommendations contained in the Report of the Minority of the Peel Commission. After a period of ten years' agitation upon the subject of further temperance legislation, the Scotch Act of 1913, however, reached the statute-book.

22. It had previously passed through the House of Commons in the year 1912, and it ultimately became law as the result of the pressure of the Parliament Act and of consequent negotiations and compromise arranged substantially between the two great parties in the State, as well as between the two Houses of Parliament.

23. Under the Act local option was introduced. The principal difference which had ultimately remained between the two Houses was the settling of the period of what is known as the time limit, under which the local option provisions could not be put into operation for a considerable term of years. These topics will be presently alluded to.

#### RELATION OF STATE TO LIQUOR TRADE IN SCOTLAND: (2) HISTORICAL.

24. About the middle of the eighteenth century the English licensing system is said, by the Peel Commission, to have been "imposed upon Scotland." But no license was required for the sale of whisky in Scotland prior to the year 1793, and even then no certificate was required by the keepers of houses near military roads. Certain legislative changes occurred in the beginning of the nineteenth century, but in the year 1828 the foundation of the present system was laid by setting up and giving jurisdiction to licensing authorities. These authorities in the course of the ensuing ninety years have been subject to change from time to time, some of the most notable of these changes being consequent upon the alterations of qualifications of occupants of the licensing bench.

25. The Committee proceeds at once to inquire what was the hold or grasp which the State retained, and from time to time increased upon the trade thus licensed. By the Home-Drummond Act of 1828 the first inroad was made upon the liberty of the licensee to sell liquor at any hour, day or night. A prohibition of sale was made during the hours of Divine Service on Sundays. In 1853 the Forbes-

Mackenzie Act, which was one of great importance, was passed. The sale of liquor on Sunday was entirely prohibited, except to those lodging in an hotel or to a *bona fide* traveller. In addition to this one day a week being out off, closing hours were introduced. Liquor could not be sold or consumed in licensed premises between 11 p.m. and 8 a.m. In 1862, 1876, and 1877 various Acts were passed which did not affect the hours of business, but dealt with offences and with matters of procedure applicable to Licensing Courts. In 1887, however, an important Act was passed under which the Licensing Authority in Scotland was vested with a discretion to fix the hour of closing (11 p.m.) as early as 10 p.m. on weekdays. It is a somewhat remarkable fact that within a very limited space of time the licensing authorities over the whole area of Scotland took advantage of this power, and 10 p.m. became the closing hour.

26. An exception to this rule, however, had been introduced into the statute at the instance of the House of Lords, the exception of any towns of more than 50,000 inhabitants. After sixteen years, namely, with the Act of 1903, this exception was taken away, and it was made permissible, at the discretion of the licensing authorities, to compel closing at 10 p.m. in the large towns. Again, within a very limited time, this discretion was universally exercised, and 10 p.m. became the evening closing hour throughout Scotland.

27. In 1903 important further changes in respect of closing were introduced. Licensing Courts were authorised to make byelaws closing licensed premises wholly or partially on New Year's Day, and on not more than four other days in any year. Then in the Act of 1913 the closing hours were attacked from the other end, and the statutory hour of opening was made 10 a.m. instead of 8 a.m. Finally, and as part of the emergency war legislation, the hours of business in something like nine-tenths of the entire area of Scotland were drastically reduced, and closing was made compulsory except between the hours of 12 a.m. and 2.30 p.m., and of 6.30 p.m. and 9 p.m. on five days of the week, and on Saturday, except from 4 p.m. till 9 p.m.

28. This statement as to restriction has been confined, as has been seen, in the first place to the hours of trade, and it will be observed that the community, acting by force of the discretion vested in licensing and other authorities by statute, has subjected the carrying on of this business to an ever-increasing restriction. It should be added that one necessary consequence of this has been thus to place the trade more and more under effective police supervision.

29. It may next be mentioned that, in the course of the legislation alluded to, certain considerable changes were effected with regard to the granting or renewal of licenses. Reference in particular is made to the Act of 1896, which provided that the refusal of a new application should be final; there was no right of appeal. Before that date an appeal was possible against a refusal to grant a new certificate. The finality attaching to a refusal of a new license by the first Court was an important change. Further, when a new license was not refused, but was granted, then in that case the grant required to be confirmed by what is called a Confirmation Court. The double effect of these provisions accordingly operated in the direction of considerably restricting the chances of new licenses being obtained, and local control was thus accentuated.

30. The trade was thus increasingly under supervision and restriction; and in most of the instances cited, as will be well known, there is no similarity between the laws of Scotland and of England. To take the broadest of all contrasts, that of Sunday closing, the difference between the two countries is strikingly manifest.

#### RELATION OF STATE TO LIQUOR TRADE IN SCOTLAND: (3) STRIKING DIFFERENCES BETWEEN SCOTCH AND ENGLISH CASES.

31. But a still further difference has now to be noted, namely, between the essential nature of the right of the licensee north and south of the Tweed. After the decision of *Sharp v. Wakefield*, the English statute of 1904 enacted provisions—the subject of much controversy and discussion—under which the principle of compensation, out of funds provided by the trade, was recognised. Some-what elaborate machinery was set up on this subject. The discretionary powers of the authorities to refuse the renewal of a license received a severe check. The power to refuse old on-licenses, except upon the grounds of misconduct, etc., was vested in the Compensation Authority and not in the Licensing Justices, and could not be exercised except upon payment of compensation under the Act. It is unnecessary to enter into this subject further than to state that the position of the holder of a license as thus fortified, the discretion of the licensing authorities as thus limited, and the entire scheme of compensation find no analogy in any Scottish legislation.

32. The contrast between the two cases has been often publicly recognised, and in the House of Lords on 9th August 1904, Lord Balfour of Burleigh, the Secretary for Scotland from 1895 to 1903, stated, with, so far as the Committee is aware, the entire approval of all sections of the community in Scotland, the matter thus—on the question of the provisions for the extinction of licenses by way of compensation for the trade: "If anything in the nature of the English Bill were to apply to Scotland, we should be in an infinitely worse position than at the present time. I am apprehensive that an attempt may be made to extend the general principle of this Bill to Scotland, and I wish to take this opportunity of saying that there is such a difference in the circumstances of the two countries that it would be as act of gross injustice to apply the principle in this Bill to the country north of the Tweed."

33. The Committee shares the views laid before it by the Under-Secretary for Scotland, that Scottish legislation substantially followed the lines of the Report of the Minority of the Peel Commission rather than that of the Majority. His Majesty's Government may further be reminded that in that Report the general position on this matter was thus stated: "In Scotland there has never been the slightest doubt as to the state of the law; the absolute discretion of the licensing authority over all kinds of certificates, without any exception, has always been recognised. It is true that in some parts of Scotland certificates have been renewed from year to year without much question, but anyone investing in a public-house ought to have done so with the full knowledge of the law, which is stated on the face of the certificate—'This certificate to continue in force from to and no longer.'" That

period is either a six months' or a twelve months' period; generally the latter. The Report further states: "No Scottish Sharp v. Wakefield was ever possible, because the fact was clear. In Scotland, too, as we have seen, the certificate is more personal to the holder, and the owner of the premises is not recognised by the law. The landlord has no vested interest in any increase in value through the granting of a license."

34. The majority of the Commissioners made a proposal, the general effect of which favoured a gradual reduction of licenses by compulsory selection, with compensation by contributions from the trade itself. They did not propose any distinct time limit, although they indicated that this reduction might take place in cycles of seven years. The Minority Report, on the other hand, while accepting the principle of compensation by the trade over a single period of seven years, made proposals by which that single period of seven years should be regarded as a time limit for compensation, after which the coast should be more or less clear, and in Scotland and Wales they added "clear for local option." This is the form in which Sir James Dodds expresses the general result of the treatment of the topic by the Peel Commission. The Act of 1913, however, has put an end to such discussions as to policy, and the Committee, and in its opinion the country, must recognise that the projected scheme of State purchase must be considered solely with reference to the rights and interests both of the trade and of the State as on the basis of the law of Scotland as it at present stands.

### THE TEMPERANCE (SCOTLAND) ACT, 1913.

35. That is contained in the Act of Parliament of the year 1913. The Act comes into effect on 1st June 1920. As its true object and its consequences are still the subject of extreme controversy, Section 2 of the statute had better be quoted just as it stands. It is in the following terms:—

"2. (1) If, in the manner hereinafter provided, a requisition demanding a poll under this Act in any area is found by the Local Authority to have been duly signed, the Local Authority shall cause a poll of the electors in such area (hereinafter called 'a poll') to be taken in accordance with the provisions of this Act.

"(2) The questions to be submitted to the electors at a poll shall be the adoption in and for such area of (a) a no-change resolution, or (b) a limiting resolution, or (c) a no-license resolution.

"(3) On a poll in any area:—

"(a) If 35 per cent. at least of the votes recorded are in favour of a no-license resolution, and not less than 35 per cent. of the electors for such area on the register have voted in favour thereof, such resolution shall be deemed to be carried; or if

"(b) A majority of the votes recorded are in favour of a limiting resolution, and not less than 35 per cent. of the electors for such area on the register have voted in favour thereof, such resolution shall be deemed to be carried; or if

"(c) A majority of the votes recorded are in favour of a no-change resolution, or if no other resolution is carried, a no-change resolution shall be deemed to be carried; and any such resolution so carried shall come into force on the twenty-eighth day of May immediately following the taking of the poll.

"(4) An elector shall not be entitled to vote for more than one of the resolutions submitted at the poll, but if a no-license resolution be not carried, the votes recorded in favour of such resolution shall be added to those recorded in favour of the limiting resolution, and shall be deemed to have been recorded in favour thereof.

"(5) Any such resolution if carried shall remain in force until the resolution is repealed or superseded as hereinafter provided."

36. Section 3 is executorial and deals with the effect of the resolution as carried, and the consequential action of the licensing authorities. Section 4 deals with the subject of resolutions at further poll. Stated generally, the effect is that the situation as fixed at one poll cannot be reviewed or altered except after an interval of three years.

### THE TIME LIMIT.

37. The Act, as already stated, does not come into operation until 1st June 1920. This postponement constituted the time limit. It was the subject of serious contest, and was undoubtedly dealt with in connection with the topic of compensation. The principle of the time limit, it was urged, was necessary in order to enable the trade to set its house in order, particularly by the method of insurance, so as to create such funds as appeared to be requisite to compensate the individual trader against the closing of his house by reason of the action of the community under the Act. This time limit was conceded, and a struggle ensued as to the period. The Peel Minority Report had recommended seven years' time limit in England and five years in Scotland. The period first asked by the trade was fourteen years; the period proposed by the House of Lords was ten years; the final period inserted in the Act was eight years from 1st June 1912 (the measure although passed in 1913 having been before both Houses in the previous year, 1912). It is, therefore, correct to say that the reaching of the time limit was by way of a compromise as to period.

38. The nature of the time limit itself appears to the Committee to be substantially this: no legal right or claim existed in licenses which could be pleaded as enabling them to resist the non-renewal by the restrictive or prohibitive option of the community. Although, however, they could not say that they had any such right or claim at law, still, having put out certain expenses, and having, it may be, been in the regular enjoyment of a course of trade, there was, it was urged, a certain equitable claim for consideration which fell to be recognised by the State in the new enactment. On the ground of this equitable claim, immediate local option was resisted, and by the consent of the State the exercise of the

option was deferred. The time limit was set up postponing for a period of years the direct, and it might possibly be the sweeping action of the community at the poll. If that direct or sweeping action had been immediate it would have come upon the trade at a time when they were unprepared, and had not been allowed to prepare for what to them, or in individual cases, might have very serious financial results. Compensation as against that sudden action could have been pleaded for in a way that was rendered impossible after the granting of a time limit. This latter operation therefore put at rest all questions of compensation for cessation or dispossession of business consequent upon the exercise of the rights of suppression, total or partial, vested in localities by the Act.

#### LIMITATIONS OF TEMPERANCE (SCOTLAND) ACT, 1913.

39. The Act of 1913 does not apply to the manufacture of drink; nor does it affect the supply of drink under excise license. Indeed, it has been pointed out by a leading brewer that notwithstanding the statute it would be open to brewers to supply direct to consumers under their excise licenses. So far as the text of the Act is concerned it would be legal to do so in quantities of not less than  $4\frac{1}{2}$  gallons. And it is to be pointed out the effect of the Act is confined to the prohibition of the sale of intoxicating liquors in the particular areas. So far as accomplishing suppression of sale for consumption is concerned, such points have to be kept in view, but any change in regard thereto is not a matter for the Committee but solely for the Legislature.

#### WIDE EFFECT OF ACT OF 1913: IMPORTANCE ON VALUES.

40. But while the Act only applies to those businesses which require a magisterial certificate or license, the effect is notwithstanding very wide. According to the Judicial Statistics for the year 1914, corrected by information received from public authorities, licenses in Scotland are granted to 1838 inns and hotels, 5024 public-houses, and 3301 grocers' premises. One fact on this branch of the subject may be noted as of interest, viz. that, whereas in England at least 90 per cent. of the public-houses are tied houses, in Scotland tied houses are practically unknown. In England accordingly the public-house question is largely—almost entirely—a brewers' question: in Scotland it is not so. A house in Scotland is a personal house; this is repeated again and again by magistrates in Licensing Courts, which take careful stock of the character and record of the individual applicant. It is the case that a species of tie does sometimes exist by reason of a brewer or distiller having made a loan to the publican or hotel-keeper, but this, if the circumstance is disclosed before the Licensing Court, is either ignored or certainly carries no weight in the applicant's favour.

41. It was upon this large class of cases—numbering between nine and ten thousand,—those, that is to say, that directly enter to the general public and intimately affect the habits and expenditure of the people, that the agitation of so many years and the legislation referred to was brought to bear. It will be observed accordingly how very deeply the Scottish legislation cuts into the question of values, and indeed into the whole subject of the inquiry. When the valuation of these businesses comes to be dealt with, the effect of the advent of local option will be adverted to. Whether, and in what directions and to what extent, local option will be exercised must in the opinion of the Committee have a substantial bearing upon existing values. On a forecast of this kind it is possible that temperance organisations operating throughout most of Scotland might have been able to put experience and opinion and possibly helpful facts before the Committee; but evidence from that quarter, notwithstanding full opportunity offered, not having been given, the Committee took care to elicit the views of important witnesses, such as the Lord Provost and Chief Constables of leading burghs, who were acquainted not only with local feeling, but with the practice and modes of action of the Licensing Courts. In the result the Committee has reached the conclusions after stated on the value question.

#### TEMPERANCE (SCOTLAND) ACT, 1913: MARKS DEFINITE STAGE.

42. But in the Committee's opinion it would be lacking in its duty if it failed to make clear to the Government the following:—The power of communities in Scotland over the prohibition and restriction of licenses has in the Act of 1913 reached a clear and definite stage. What has been accomplished after a protracted struggle cannot be surrendered. The point, according to some witnesses, that suggested serious doubt about even the holding of an inquiry was that it seemed to give some countenance to the idea of purchase of the same thing as has already had the time limit applied to it, in the sense of admitting compensation in, it might be, a good many cases of licensed businesses with regard to which the probabilities were that suppression would have been secured under the statute without any compensation money. It cannot be denied that this is a forcible consideration. But what was agreed upon on all hands was that any measure which deprived the localities of the powers of local option won for them under the Act would be a public wrong. The Committee shares this opinion. If purchase by the Central Authority were to be projected with the object or were to have the result of setting up drink businesses in localities from which the direct vote of the people had excluded them, there would, to the sense of many already mentioned, be added a great cause of social irritation. Purchase to block prohibition would be widely and vehemently, and in the opinion of the Committee properly, resented. The Committee cannot assume that any Government would propose or Parliament would sanction such a course. It assumes the opposite, and makes its Report upon that footing.

#### STATE PURCHASE WITH LOCAL OPTION UNIMPAIRED: POSSIBLE EFFECTS ON PROHIBITION.

43. There remains accordingly this opposite view, viz. that the trade might be bought out by the State, but upon the footing that the powers of the localities and voters therein as they stand on the statute-book are left unimpaired. This was the subject of anxious inquiry, and as bearing upon the problem of State acquisition the Committee may state the result.

44. The "trade" in Scotland is highly organised, and its interests in Scotland, which appear to be

amply equipped with means, are defended with vigilance and vigour and with great ability. The work of these organisations becomes a not unimportant factor in political and municipal contests. It is practically certain that when the options under the Scottish Temperance Act come to be exercised, the influence of these organisations will be brought to bear upon the voter of Ayr, in strong reinforcement of those appeals on the ground of the individual hardships of dispossession which are the every-day experience of Licensing Courts. With purchase by the State, the whole of this class of organisation and influence and argument would disappear. The evidence shows that this being so, the chances of a free and unbiased expression of opinion would be much fairer. The voter would no longer be beset by the appeals of private interest; what would remain would be his interest as a general taxpayer alongside of his experience and views of local and social welfare.

43. The Committee thinks it right on this subject to put on record that the opinions placed before it to the effect that the pathway to local prohibition would be smoothed, and the rate both of restriction and prohibition would be accelerated by the elimination of private interest, were well informed and extremely weighty. It may refer, for instance, to that especially of the Lord Provost of Edinburgh, who, in addition to now being Chief Magistrate, has for many years sat as member of Council for the Canongate Ward (one of the poorer districts of Edinburgh), and has thus had special opportunities of becoming acquainted with the difficulties of the problem. Lord Provost Taggart of Aberdeen expressed himself thus:—Being asked, "You do attach considerable importance to the influence of the trade when that poll comes on?" he replies, "No doubt about that. If the State make the purchase before that time, then that influence would be taken away, and I should say that that would make a considerable difference in the vote. There is a personal sympathetic feeling towards members of the trade. If that influence was taken away I do think that the vote would be more towards prohibition." While none of the witnesses committed themselves, or were asked to commit themselves to the policy of purchase, yet according to this important evidence, local opinion being left to operate, State purchase would hasten prohibition. The task of the Committee, however, must be to treat things on their existing footing, and as bearing upon the life and values of these businesses the trade is entitled in its statement of the chances of prohibition or restriction not to put to an underestimate the powers which under the present system it would undoubtedly wield upon the vote, and in the direction of no change. By "prohibition" the Committee, of course, must be taken to mean the passing of a no-license resolution under the Statute of 1913.

#### ALLIED TRADES.

44. The Committee would now be prepared to proceed with the main problem, and to take first in order the case of certificated houses, and in connection therewith the other trades such as wine merchants which directly supply the consuming public.

47. But apart from that main problem there were two sets of claims which the Committee was asked to consider, and which it may be well at once to dispose of. These claims were, first, that on behalf of Allied Trades; and second, that on behalf of dependent interests. In regard to both of these cases the Committee was informed that assurances had been given by members of the Government that the cases would be considered. Had it not been for this fact, the Committee would have seriously considered whether the evidence was strictly relevant to the subject of the remit; but in the circumstances mentioned it was thought right not to shut out the representatives who offered themselves for examination, and accordingly their statements were taken.

48. The principal interest, and one which might be taken as representative of the Allied Trades, was that of the Maltsters' Association. So far as the extent of that trade is concerned, this is in Scotland relatively small. The majority of the brewers in Scotland are their own maltsters, and their make is 1,173,000 quarters. The proportion of malt made and sold by members of the Maltsters' Association for the purpose of the trade in Scotland to brewers was only 50,000 quarters, so that it will be at once seen that the dimensions of the question are very limited.

49. Upon the point of principle involved, the Committee has come to the conclusion that these Allied Trades have no just claim to be participants in, or to be provided for, under a scheme purchase of the liquor trade. They were dealers in ordinary course of business with that trade. It is admitted that the traders might have ceased their custom with them, and proceeded to supply themselves like other concerns, in which case no right, legal or otherwise, could have emerged from such a change in the market. Yet, seeing that the State may make a transaction on a large scale, and that, in short, it is the State, there is, it is said, room for the preference of a claim. The Committee cannot recognise this position. It is involved in the ordinary purchase of a business for full value that the buyer has the ordinary rights to stop it or to carry it on, and if the latter, then to place his orders for goods or service where he will. Such a purchaser is neither hampered in this elementary liberty nor penalised for using it.

50. But the Committee think it right, in the first place, to state its definite and clear opinion to the following effect. It views with apprehension the suggestion that the State in entering into a transaction of purchase should tie its hands, binding itself to carry on business in this, that, or the other channel, or for this, that, or the other price or period of time, the State on breach of this obligation to be faced with claims—it might be very serious claims—of compensation. To give one instance—which will occur to anyone who knows the general history and law of the question in Scotland,—the freedom of the State as purchaser, or of the localities affected, to limit or to stop the trade might be thereby gravely hampered and impaired; and any arrangement directly or indirectly of that character would be justly resented as an unwise entanglement, improperly made with outside interests.

51. But the Committee further desires to observe that whether the trade is or is not continued by the State after purchase, and in what manner it might be continued, are questions of public policy, and that these things form in its judgment no part of the conditions of purchase. What would happen to the trade after purchase will be for determination by the Parliament and Government of the day, and on the occasion of particular steps being adopted, or arrangements being made, the administration will no doubt proceed upon the fair and ordinary principles of commercial transactions.

## ALLIED TRADES: RAMIFICATIONS OF CLAIMS.

52. The case submitted by the Malsters' Association has been referred to. But if once the principle alleged to be covered by such expressions as "interests" and "allied trades" is admitted, there seems to be little limit to the demands which would be made upon the State—to the remotest corners of consequential damage. There may, of course, be special and most exceptional cases; but it may, in general terms, be accepted that the law and practice of the country decline to sanction such a principle. Where a business of a composite character is broken up, say a hotel or a grocery business, in which the sale of liquors under a license forms part of the everyday management and working of the concern, then the possessor of the business may be well entitled to say that the unlicensed remainder of his business, and so the entirety of the concern, may be injuriously affected. That is an interest he is entitled to put forward and to protect. But when none of a claimant's business is bought, and he stands at arm's length from the drink trade as the owner of a separate concern which has business relations with licensed dealers, he may no doubt have lost his merchant, and may or may not get another, but this circumstance seems in no way to confer upon him any right to be compensated for loss of custom. Where there are current contracts that is a different affair; these must be fulfilled; and it would not be just that the State as a purchaser should escape from this duty or its equivalent in compensation. But where there is no current contract, both parties were free to give or take supplies, and this freedom continues in the new circumstances and change of the market. It does not appear to the Committee legitimate to place a heavier or different responsibility upon the State than upon any other buyer of an independent concern. It seems fairly clear that in ordinary commercial dealings such a claim is unknown and would be reckoned intolerable.

53. How far a departure from these views would lead is well illustrated by the cases in hand. And it is, in the opinion of the Committee, not unimportant to enumerate the species of claims which have been indicated as falling under the head of Allied Trades. Malsters would present claims for the maling trade which they were in the habit of doing with certain private brewers; coopers similarly would present claims, and have indicated such, because they might lose trade in making barrels for private customers; the iron trade are interested, because the cooeping of the barrels involves a considerable demand for iron hoops; bottle-makers and cork-cutters, who supply the goods of their trade to distillers and brewers, would present claims; the printers who print labels—and, in short, every concern which does business with the main trade which is the subject of the transaction of purchase can, if such an opening under the head of Allied Trades be permitted, make a claim equally well founded for consideration in money. This is neither conjecture nor exaggeration. And the Committee thinks it right to cite the following passage from a letter addressed to the Secretary of the Committee by the Chairman of the Allied Brewery Traders' Association:—"The chief Trades represented in the Association are the Maling Trade, Hop Trade, Brewing Sugar Trade, Brewing Materials Trade, Brewers' Grains, Engineering, Coopers, and Building Trades; distributing trades, comprising manufacturers of jars, bottles, crates, corks, stoppers, and like trades. In addition to these there are numerous trades, such as Architects, Bill-posters, Waggon Builders, Ironmongers, and many other trades closely allied to the Brewing Industry, who are all appreciably affected by any legislation which concerns the Brewing Trade." On their merits the Committee thinks that these claims are unjustifiable; that they should not be recognized by the State; that the freedom of the State should not be impaired by any consideration that such recognition falls to be considered; and, finally, the Committee repeat that so far as purchase by the State of the liquor trade is concerned, it does not think that these items are involved in or properly bear upon that topic.

## SUBSIDIARY INTERESTS: EMPLOYÉES; DIRECTORS.

54. The same principles apply substantially to what may be termed the subsidiary interests. Speaking generally, the Committee has observed with a certain amount of surprise that the claims suggested by the whole of these interests, from directors, managers, and secretaries down to the humblest employé, is based upon the idea that, when the State acquires the trade, those engaged in that trade become persons who, at the moment of acquisition upon their record of service prior to that event, should be dealt with on the same principles as would have applied to them had they been all along civil servants. It is admitted that no scheme of pensions or retiring allowances has ever been formed or even considered by the trade itself, or any branch of it. It is further admitted that the employés and others referred to never enjoyed their wages or salaries upon the footing or idea that they were less in amount on account of embracing deferred pay. On examination, the extreme views were subjected to considerable modification. It was practically agreed that employés of less than ten years' standing could not be reckoned into the account, and it may be said that the instances given of allowances on retirement, or of pensions for life, were instances very honorable in themselves of compassionate regard by considerate employers for the cases of infirm and aged employés who had been long in their service. It is not exactly within the scope of the remit, but the Committee does not think it is going too far when it suggests that after acquisition by the Government, if acquisition should take place, and upon the occasion of such displacement, if any, of employés of the kind referred to, namely, those who would have had compassionate allowances had the trade remained in private hands—such cases are fair matter for consideration upon the view that the Government should act on the principles which would have moved fair-minded employers.

55. The point was put in this form to each class of witnesses, and some, with hesitation, but ultimately all, agreed that this was correct, although they naturally made the reservation that if there was a large and wholesale stoppage of the trade extra consideration might be had to the cases of allowances in view of the fact that openings for men dispossessed of employment would not be available in the same line of business. There may be some force in this, and the Committee does not think it right to report adversely upon it.

56. Upon the general question, its opinion, however, is as just expressed. The idea that employés should be settled with on the footing of being paid out, as indeed was in at least one instance claimed,



upon the ratio of the same number of years' purchase of their salaries as was given for the businesses themselves (or indeed upon any principle of a number of years' purchase) is one to which the Committee can give no approval or sanction.

#### DIRECTORS.

57. A word may be added as to the position of directors. The Committee fortunately embraces within its membership several gentlemen who have held this position in concerns of great importance throughout the country. It is unanimously of opinion that such a claim is unfounded. It may be at once said that it appeared but little in the evidence given; and one explanation was tendered, to this effect, that in at least not a few of the cases of the constitution of limited concerns the former proprietors were represented on the directorate, and would not themselves think of preferring a claim of the kind indicated. In practice when concerns are taken over, the directors, if not employed in the converted venture, are set free for employing their energies and business talents in other concerns. But the Committee does not wish to leave this topic without observing that the entire principle of such a claim seems to them to be very dangerous ground. A director is paid by honoraria awarded to him by the shareholders in general meeting. Anything which comes to a director by reason of, and as a part of, a transaction in which the business of his company is concerned, belongs to that company. He is bound to secure no private advantage at the expense of the concern which he manages. The Committee thinks that this same principle has a bearing upon the case in hand, and it thinks it would be of the worst example that in transactions of transfer of limited concerns the directors might have an interest of their own to be recognised by the other party to the transaction. It is open to the company itself when it is in liquidation, as hereinafter suggested, to make such resolutions as it deems fitting in recognition of services rendered to it in the course of negotiations. But the moment such recognition becomes part of the consideration for the bargain itself, the danger zone is entered. It would then be part of the transaction not only to buy out the company but to buy off the directors. A resultant conflict of interests is not difficult to figure. The Committee is not moved from these considerations by the suggestion that transactions with this dangerous element are not unheard of. The Committee has also pleasure in adding that, so far as the evidence given before it was concerned, no countenance was given to such a claim by directors.

58. The position of Managing Director is a composite one, that is to say, he is at once servant and director. There does not appear to the Committee to be any ground for failing to apply to him in each exactly the principles severally applicable thereto as above set forth. The Committee concludes by observing, however, that if such principles were to be disregarded, the serious responsibility of that would rest upon the Government of the day, not as any part of the transaction of purchase, but as part of the scheme of policy or administration under which and on the occasions on which the business of these companies, or some of them, might be stopped.

#### DISINTERESTED MANAGEMENT.

59. The case of public-houses under disinterested management was brought before the Committee, specially from Glasgow and the West of Fife districts. According to the evidence before the Committee, all the public-houses so carried on are conducted with care, with a complete compliance with the law, and with very considerable profits. The Committee had the advantage of having before it Mr Stewart of Kelly, a small colliery town of large recent development, now numbering 8000 souls. In this village there are two public-houses under disinterested management. The capital employed is subscribed for by working men, and no investor is allowed to buy stock in excess of £200. About 300 persons in Kelly are interested in the venture. The management is also under the direction of working men, the total capital being over £10,000, and this yielding an annual profit of from 20 to 25 per cent. Five per cent. is the maximum limit of drawings by shareholders on their investment. The Kelly Public-House Society devotes the surplus of their income (after making good all depreciation, and setting aside a certain sum to reserve) to objects of public utility, including the providing of a district nurse, the purchase, building, and upkeep of a public hall, the laying out, etc., of a bowling-green, and other objects of more or less importance; and other public-house societies act upon the same lines with regard to all surplus profit over 5 per cent. The position taken up by these societies is that they and their directors are entitled, should purchase of the licensed business be made by the State, to be left in possession of the assets unconnected therewith, and to obtain from the State an equal amount in the shape of goodwill as would have been allowed in the case of private owners. They assented to the view put before them by the Committee, that this would involve the continuance of a trust in the district so as to take over the current obligations of the existing directors, and to carry on, so far as may be possible, for the benefit of the district, the public objects which were in view in the initiation of the trust. The Committee accepts the assurance of Mr Stewart, and the two other Fife representatives who appeared with him, that such committees could be formed of trustworthy men, and the good objects hitherto achieved might continue to be favoured under the newly constituted bodies.

60. The Committee does not doubt that practical arrangements could be made of this character in all cases where a disinterested management had been the licensees, and they recommend accordingly. The Committee must be understood not to treat cases of disinterested management as in the category of allied trades or dependent interests. These societies are traders, and the Committee agrees that the claims put forward for equal treatment in the matter of purchase should be given to them along with the other public-house licensees.

#### PUBLIC-HOUSES: GOODWILL.

61. The Committee will deal first with that part of the inquiry which relates to direct supply; the trades of manufacture, rectifying and blending, will be dealt with later on. On the matter of direct supply, it is to the trade conducted in public-houses that the most general social interest attaches. These, as mentioned, are 5024 in number, and the license therefor is personal to the licensee, who, in

almost all or at least in the vast majority of cases, himself conducts his own business. He is answerable as an offender for any breach of the licensing laws or certificates. He is in some cases proprietor of the premises, in others a tenant for years, and in others a tenant at will.

62. In almost all instances a value is created by the State in the grant of a license, sometimes a large value, and in all cases (exclusive of the relatively trifling charge made upon the certificate and license) this grant is a free grant, resulting wholly from an administrative act. It is also in express terms a grant of a license for a year and no longer. This is the strong and staple argument against compensation for suppression. No hindrance exists in Scotland to giving effect to this argument by reason of the rise or creation at the hand of the State of any vested interest for a longer period. The Committee has accordingly given care to the consideration of these points, and of the view that goodwill beyond the period of license is a negation of the terms of that license. The State should, it is argued, not be involved in claims for compensation for loss of business beyond the licensed period. The State is not bound either to recognize or to pay for such goodwill.

63. On the other hand, goodwill exists. This fact is notorious: it constitutes a material item in transactions for the disposal of public-houses and their businesses. Properties are let and bought and sold on the footing that they have an added value by reason of the premises being licensed, and of the expectancy of their continuance as such. So far as the State is concerned, it is committed to this fact. Taxation as well as rating of properties has proceeded upon that basis.

64. As to businesses themselves, the matter stands thus: In ordinary commercial transactions of purchase, goodwill is one of the principal items in the value of the thing transferred. Now in transactions with the State is such value omitted. On the contrary, the actual goodwill is treated as constituting part of a deceased publican's estate, and as such it is taxed for death-duties. This is in accordance with ordinary and regular practice, and the valuing of such goodwill is indeed part of the routine duty of the Government Valuer. The Inland Revenue and other authorities not unreasonably accept the commercial facts just as they stand, viz. that goodwill exists and has a value, and upon these facts base their legal demands and receive payment of the duties. The value may vary with the effect of legislation from time to time: legislation affecting the trade may enhance it, as it appears to have done in England, or may lower it, as it appears to have done in Scotland; but when the problem of purchase is being considered, it is purchase of the present thing just as it is in fact—not as it ought to be if certain elements of actual value were excluded.

65. The Committee adopts the view just stated. It does so with the less hesitation for this reason. It does not think it reasonable to suggest that in a transaction between the trade and the State, the latter should be permitted to deny the existence and value of goodwill as a legitimate element of price when it has steadily affirmed the same as a legitimate subject of taxation. In individual cases, of course, the goodwill may not have had the time or the field for becoming more than nominal; in other cases it may, from a variety of circumstances, have been reduced to a vanishing point. But wherever this is not so, wherever, in short, the goodwill of a business is such that it would have entered the estate for taxation purposes, then in all such cases it is reasonable that it be paid for. No arbitration could or would proceed on any other basis: the State as purchaser ought not to ask other terms.

#### ASCERTAINMENT OF PROFITS: GOODWILL: IMPORTANCE OF INLAND REVENUE RETURNS.

66. If, however, this principle be applied to the State, it is only just that the same measure be meted out to the trade. This applies especially in two directions, namely, with regard to the number of years' purchase of net profits which may be taken to represent the value of goodwill, and also the ascertainment of what the net profits are. Upon the first of these subjects there was much diversity of evidence, and—a remarkable circumstance—on the second there was practically none. These two points will now be dealt with. They are vital to values.

67. Twenty years ago there occurred a great inflation of prices for public-house concerns. This was associated with certain speculative enterprise on the part of wholesale houses, and after the collapse of some well-known firms in the wholesale liquor trade, prices began to fall. They have continued pretty steadily to fall ever since. In the opinion of the Committee the agitation in favour of restrictive legislation assisted this decline, and the Act of 1913 accelerated it. People engaged in or inclined to such business could not be blind to the added risks attaching to it. They were not, and prices sagged accordingly. Further, the action of the licensing magistracy in Scotland for at least a generation past has been markedly consistent and has, backed by popular approval, favoured reduction. In the great centres of population it may be true that a new license here and there has been granted in the suburban districts, but investigation has shown that the applicants thus successful have been the owners of public-houses in well-supplied districts, and have offered to relinquish those businesses and thereupon have got a new license elsewhere. In a sense such suburban licenses were new, but as city licenses they were renewals with a change of location. Apart from this, the broad fact is that not only have the relative numbers of houses steadily declined, but that for more than twenty years past the grant of a really new license is a very rare event. The course of legislation, and the changes in regard to Courts and their procedure, have been referred to, and it seems plain that public sentiment has at least fully supported the policy described.

#### PUBLIC-HOUSES: STATISTICS.

68. In illustration of what has been said, the following figures may be given showing the number of public-houses and the relation which that number bears to the population:—

In Scotland as a whole, the number of public-houses has greatly fallen, the figures being:—

In 1894 . . . . .	5571 houses.
„ 1904 . . . . .	3544 „
„ 1914 . . . . .	5130 „

The fall in actual numbers in these twenty years is accordingly 441. But this imperfectly discloses the subject. And a more helpful view takes account of the relation which the numbers bear to the population.

In 1894 it was	4,165,606
In 1904 it was	4,563,965
And in 1914 it was	4,747,167

The relation of number of licensed public-houses to population is accordingly :—

In 1894, 1 public-house to every 748 of population.
„ 1904, 1 „ „ „ 823 „
„ 1914, 1 „ „ „ 925 „

69. In the four cities visited by the Committee, the evidence from which will be presently alluded to, the figures—covering a still longer period, viz. thirty years—stand thus :—

	1884.	1894.	1904.	1914.
<b>EDINBURGH :</b>				
Population . . . . .	262,802	272,683	331,977	321,900
Public-houses . . . . .	331	295	317	296
Ratio, 1 to . . . . .	733	924	1,047	1,087
<b>GLASGOW :</b>				
Population . . . . .	511,415	674,300	782,110	1,032,000
Public-houses . . . . .	1,440	1,449	1,331	1,339
Ratio, 1 to . . . . .	355	465	588	770
<b>DUNDEE :</b>				
Population . . . . .	142,454	158,719	164,269	177,306
Public-houses . . . . .	224	214	209	215
Ratio, 1 to . . . . .	636	742	785	825
<b>ABERDEEN :</b>				
Population . . . . .	100,200	130,600	164,124	159,550
Public-houses . . . . .	102	116	114	113
Ratio, 1 to . . . . .	982	1,126	1,439	1,412

To understand these figures, it is necessary to keep in mind the fact that there has been in Scotland a large inclusion of suburban areas and of smaller burghs into the bounds and jurisdiction of the predominant municipality. This has been particularly so in the case of Glasgow. The increase of population, accordingly, is not a mere natural growth, but a parliamentary growth. The important comparison, therefore, is in the ratios—that is, in the number of houses relative to the actual population at the respective dates.

70. The effect of the figures so viewed cannot be gainsaid. The numbers of public-houses in relation to the population served have, under the law in its various stages during the past twenty years, undergone a reduction remarkably steady, although, it may be, remarkably slow. This fact bearing upon the general chance in the life of a licensee reflects itself no doubt in values. But there has to be added also the undoubtedly increasing rigour of supervision and control, and the greater restrictions under the law in recent years, with the risks attached to contraventions, and also the changing habits of the people.

#### PUBLIC-HOUSES: EFFECT OF ACT OF 1913 ON VALUES.

71. The view expressed on behalf of the trade was that the statute of 1913 can be ignored as having no bearing upon the value of licensed businesses. The Committee cannot agree with this view. It thinks the number of years' profit, taken to represent that value, is distinctly lower since that Act was seen to be a likely measure, and was passed. It would be curious if it were not so. But, fortunately, the evidence given before the Committee puts the point beyond reasonable doubt.

72. Instances were cited of the worthlessness of some concerns, and of the eagerness to find a buyer for the mere price of the stock and fittings; but such instances may be discarded. The general result appearing from series of transactions was that values were distinctly lower since the Act. The experienced valuers for the Board of Control were of this opinion, and this view was without exception that of magistrates, heads of police, and others officially acquainted with the subject. Among these we mention, for instance, Sir John Lindsay, the Town Clerk of Glasgow, whose long and very intimate connection with the subject is unrivalled. One of our members, Sir Thomas Munro, put the question thus: "Take public-house values—the goodwill was reckoned at so many years' purchase. Assume that prior to the passing of the Temperance Act it was five or six years' purchase. We are now in 1917, with 1920 approaching. What do you think the five years or the six years will be reduced to now or in 1920?" To this Sir John replied: "I do not know that I could give you a definite figure, but I should certainly say at least half of that, and perhaps less." That he is not speaking from mere conjecture appears from a later portion of his evidence, in which he says: "I should have added that in the Licensing Court when applications are made for transfers on the basis of purchase, the Court asks in each case what money is passing for the goodwill of the shop, and it is stated either publicly or privately by a note being handed

to the bench. We know from the figures put before us in these cases that there is, and has been for some time, a decrease in the prices paid. I think it is notorious."

## FACTS BEARING ON FUTURE OF TRADE AND ON VALUES.

### (1) ATTITUDE OF AUTHORITIES ON PROHIBITION.

73. It may be well, however, to mention to the Government one or two facts bearing on the probabilities attaching to this question which have come to the knowledge of the Committee in the course of the inquiry, and which to some extent may bear upon the future of the trade and the question of values. The attitude of the public authorities on the question of out-and-out prohibition during the war and the period of demobilisation is remarkable. As mentioned, official evidence was given before the Committee from Edinburgh, Glasgow, Dundee, and Aberdeen—these cities embracing a population of 1,737,600, that is to say, about one-third of the population of Scotland. In every one of these a resolution had been passed by the Town Councils in favour of such total prohibition. Similar resolutions were, the Committee understands, passed by other thirty-four Town Councils and by four County Councils.

### (2) WOMEN'S VOTE.

74. As bearing upon this last point of the probabilities of the case, the recent experience of Dundee during a period when war allowances to women were regularly paid may be mentioned. In the year 1935 the male arrests for drunkenness were 940, and the female arrests were no less than 790. The Committee inclines to the opinion that striking facts of this character would tend to consolidate the women's vote in favour of prohibition.

### (3) CONCLUSIONS AS TO PUBLIC OPINION.

75. The facts just set forth, although in themselves noteworthy, would not if taken singly justify any general conclusion. Taken together, however, and viewed in the light of the past history already cited, they have an undoubted cumulative bearing on the problem put before the Committee. It has been stated to the Committee by public authorities and others, that the public opinion of the people of Scotland on the drink question in the direction of limitation, restriction, and prohibition has been steadily and considerably in advance of Government action. The Committee entirely agrees with the view put before it by magistrates and officials that the reduction of licences would, apart from the local option under the Act of 1913, have been progressive, but that, further, the rate of reduction will require considerable impetus by that statute.

## VALUES: DATUM PERIOD.

76. It is from this point of view that the question of values for purchase should, in the Committee's opinion, be viewed. Practically, the datum point should be the beginning of 1914, when the Temperance (Scotland) Act was on the statute-book, and when normal conditions were not disturbed by the war. A period of three years' trade prior to that date—that is to say, the average annual profits of trade for the years 1911, 1912, and 1913—would appear to give the datum required.

## PROFITS OF PUBLIC-HOUSES: RETURNS TO INLAND REVENUE.

77. What were these profits? Upon this point much evidence was led. Put generally the business result seemed to be that of every hundred pounds of gross drawings, £40 might be reckoned as gross profits, and from £15 to £20 as net profits. Another estimate proceeded by simply reckoning the value of the business to be in a rough and ready fashion fixed by the amount of the gross annual turnover on spirits. These estimates are not condemned; on the contrary, as estimates, they appear to be the best available. But there is, it is evident, room for great looseness in results so arrived at.

78. It appeared to the Committee that the trade, in the persons of the individual publicans, had already had dealings with the Government on this very question of the amount of annual profits. Just as, in the opinion of the Committee already expressed, the Government could not in fairness reckon as non-existent for the purpose of purchase what it reckoned as existent for the purpose of death-duty, so a similar principle should be applied to the traders, and the latter should not be permitted to claim to have earned a higher or different profit than that which they had returned to the Inland Revenue Authorities as in accordance with fact and upon which they had paid or escaped from taxation.

79. Profits are the subject of annual returns, not only by the individual payer of income tax, but also by those engaged in trade who claim to be excused from paying the tax, or to have any statutory deductions made from the amount stated as income. Falshood therein may have penal consequences. Accordingly, it is such returns—not the income-tax assessments or receipts,—but such returns, that if available and all gathered together, would yield the results sought for, namely, the aggregate annual profits of the publican business in Scotland.

The value of such returns being undoubted, a point of much interest arose, namely, that in Scotland as it turned out, the Inland Revenue is able to afford a larger mass of information upon the subject than in England. The point is thus stated in the important evidence given by Mr Stamp, assistant secretary to the Board of Inland Revenue, and the passage is quoted as a whole.

"So far as retailers are concerned, in the use of income-tax returns as hopeless in England as in Scotland? In England it would be extremely difficult to use it to any degree of accuracy. In Scotland it is much more possible.

"Why is that? In the first place, accounts are kept by the publican upon which he bases his returns in a much larger number of cases. Although we may not have the accounts, yet it would be possible if such a scheme were put forward for accounts to be called for, and they would be forthcoming to a

greater extent in Scotland than in England. In Scotland the publican is better educated in these matters and takes more pains. The number of persons in England who are not called upon for returns at all because they are exempt is a very large number. In Scotland it is not so large. So the area over which there is no information at all is smaller in Scotland relatively. Then again, in England one of the things that makes it extraordinarily difficult to get at a really exact profit, even where you have got the accounts, is the fact that the publican and his wife and family live on the premises, and their household personal expenses are more or less mixed up with the business expenses. One has to analyse it by a rough and ready means—two-thirds for the business and one-third for the house, say. Whereas in Scotland almost entirely licensed houses are locked-up premises and the licensee lives somewhere else, so that all the expense he incurs at the licensed house really belongs to the business, and it is not therefore necessary to make this adjustment. So the accounts do not require the same kind of adjustment in Scotland as they require in England."

80. A further important point in connection with these returns is to secure that if possible businesses shall be treated as such and placed upon a common ground of equality in so far as charges against them are concerned. This applies in three directions:—

(1) Where a licensee is or is not his own landlord, the equality is secured by placing against the gross profit rent in all cases, the figure in the landlord-occupant case being derived from Schedule A.

(2) Some businesses are conducted without and some largely with borrowed money. Interest upon borrowed money enters the account as an item to be deducted from profit. This item is personal to the particular licensee and does not attach to the profits of the business as such. Equality is produced by analysing the return made and eliminating this element of interest on borrowed capital.

(3) In some cases licensees manage and in others do not manage the business. This disturbing element is rectified by an average allowance covering all cases in respect of management by licensees. This allowance, the Committee suggests, may be fairly estimated on an average as one-quarter of the profits. The Committee has thus, with the assistance of most highly skilled officials, done its best to procure a soundly based common denominator which may and, according to Mr Stamp, who speaks as a highly trained statistician, will result in a substantially trustworthy estimate being formed.

81. A difficulty was mentioned which promised to be serious. As already stated, the Government has not appeared as a party to the inquiry gas prospective purchaser. If it had, the question would have been put whether it had availed itself of the information in its own archives which was relevant and perhaps vital to the issue of the value of the subject it proposed to buy. The Committee took up the position that it should be as fully supplied with the facts relevant to a true financial result as the Government itself is. The difficulty referred to was this. Such information, the view was, is confidential: it is the practice of the department so to treat it: this is the rule of the service. In the opinion of the Committee this rule of confidentiality—as to which in general there may be much difference of opinion—is altogether misapplied in the instance in hand. If a trader sells to the Government and the Government buys from a trader, there is no breach of confidentiality in either or both founding upon documents which have actually passed between themselves and been the basis in the past of their financial relations. The Committee attaches no importance to the suggestion that these returns are the property of the Local Assessors or Authorities. They become possessed of them as instruments of the central taxing authority, and must use them as directed. Any difficulty on this head would probably be quickly obviated.

82. These views seem conclusive enough as regards the individual trader, and will no doubt be acted upon when the values of the particular businesses come to be fixed. But the objections indicated have even less substance when applied to the aggregate of the trade. The Committee, however, does not waste time over the point, or on the further suggestion that the trade would stand out against the disclosure as a breach of Government duty. For it is only just to the trade to state that it has adopted no such position. On the contrary, leading and representative members of various branches of the liquor trade have all concurred in the view that the basis of actual returns is a sure basis; that persons or firms making such returns should be held bound by them, and that all estimates would and ought to be dispensed with if the sum of the actual returns can be obtained.

83. The trades thus consenting, the Committee was further indebted to Mr Stamp for securing and placing in its possession the results of his labours on the large mass of material which he and his staff had to sift and tabulate. In some instances—relatively few and applicable to very small businesses—no returns were put in; and estimates have been made in such cases so as to have the figures on a national scale complete.

84. The results arrived at, that is to say, the annual net profits of the entire public-house trade in Scotland, made up in terms of this Report, were:—

For the year 1911	£1,131,382
" " 1912	1,212,860
" " 1913	1,294,328
In all	£3,638,570

The average net profit—struck over those three pre-war years—thus stands at the sum of £1,212,860 per annum.

85. The next, and very important, question for the Committee was: What multiplier of this figure should be taken? In other words, what number of years' purchase of net profits represents the goodwill of the public-houses in Scotland.

86. As was to be expected, there was upon this subject great divergence of testimony. The trade went so far as to claim an overhead rate of ten years' purchase. This figure, or anything approaching it, is in the opinion of the Committee entirely out of accord with the great weight of the evidence. The Committee takes the crucial date to be the beginning of 1914, after a long and steady process of reduction of licensed houses, and with an Act passed under whose operation the reduction on an accelerated scale is not improbable; it has considered the valuation for death-duty purposes, and the whole mass of facts

as to transactions placed before it. In its opinion the average general value of the goodwill of public-house businesses in Scotland is three and a half years' purchase of the annual net profits.

87. This multiplier being applied to the number of licenses now existing, the resultant figure for goodwill is approximately £3,535,500.

#### TRADERS' FURTHER CLAIMS: CONTRACTS, UTENSILS, STOCKS.

88. Traders have three further claims, all of which appear to be well founded. They are, in the opinion of the Committee, (1) entitled to be relieved of current business contracts, including contracts of lease of the licensed premises; (2) they must be paid for the value of moveable fittings, tenants' fixtures, and utensils; and (3) have their stocks taken over and paid for by the Government as purchasers.

89. One method of reckoning the value of the businesses was to take such an overhead multiplier of profits as would include these items. The Committee sees the attractiveness of a rough and ready method of this kind, and certain advantages in thus avoiding the trouble of valuations. But the differences in fittings and stocks are so great that the chances are that an overhead average would rarely square with true values, and would, in the large majority of cases, be unjust either on one side or the other. The Committee rejects this idea. It would be no consolation to the trader who on the overhead system had received less than his due to know that his neighbour had on the same system received more. The correct and just method of individual valuations should be adopted, failing an agreed-on figure, which no doubt would in the large majority of cases be reached with the licensee. From the best data available it is, in the view of the Committee, unlikely that the gross value of these two items would exceed £1,405,000. Of this sum, £983,000 represent stocks at present values, and in regard to this item the principle of the application of the Excess Profits Duty, or its alternative, will no doubt be the same as that adopted in reference to distillers' and blenders' stocks, as afterwards particularly dealt with.

#### PURCHASE, MINIMUM AND MAXIMUM PRICES.

90. The distribution among the respective traders of the gross sum stated for goodwill should proceed also upon the principle of individual valuations. But the Committee, in view of the extravagant claims put forward by this branch of the trade, is satisfied that justice would be fully met by striking two years' purchase and four years' purchase as the minimum and maximum figures of such valuations. If a trader demanded two years' purchase this should be conceded at once. If more, then the case would be one for valuation, subject to the maximum of four years. The range of difference being thus reduced, agreement would be more likely.

#### VALUATION PROCEDURE: VALUERS, OFFICIAL ARBITERS.

91. The suggested procedure may be roughly sketched. The Government, acting through the Purchase and Management Board after-mentioned, should be obliged to make in each case an offer—within the limits stated,—and the trader should be entitled to have exhibited to him free of charge all the statistical materials used by the valuers so as to enable him to judge of the adequacy of the offer. This being done, the negotiations or inquiry could proceed. Up to this stage each party's expenses would be a charge upon himself.

92. It will be seen that this contemplates, if the scheme of purchase be proceeded with, the employment of skilled valuers by the Board. But the Committee further recommends in that event the nomination of official arbiters sufficient in number to permit of the entire work being concluded within a period of one year. From the list of official arbiters the parties would choose one. If they were agreed, and he were available, the arbitration before him would proceed. If he were not available, and they could not agree upon another, then the sheriff of the county would select from the list the arbitrator to be employed. If there was a desire to save setting up fresh machinery, then the War Losses Commission's powers might be extended to include the arbitral work here set out.

93. After this stage, costs—that is to say, the costs of the inquiry where agreement was not reached—would follow the event. If the offer proved inadequate, the trader would be entitled to his costs as an addition to the award: if the offer proved adequate, he would be charged with his opponent's costs as a deduction therefrom. There would be no allowance for compulsory taking. The valuer, and failing agreement, the arbiter, could also be invoked to settle the rent payable by the State, after current leases expired or where there were no such leases.

#### ARBITRATION COSTS: COMPULSORY TAKING.

94. The Committee is clear and emphatic upon these two points. Speaking with some experience in such matters, it is of opinion that both of these items, namely, arbitration costs, and the allowance for compulsory taking, have proved in the past great and—in principle—unwarrantable hindrances to public undertakings, and ultimately also additions to the burdens of the people. It is also evident that a temptation, sometimes yielded to, is offered by the practice under the Lands Clauses Acts as to costs, for screwing up prices by the leverage which the threat of a contested inquiry provides. As to compulsory taking, legislation for many years past has varied the Lands Clauses provisions, and the view that when private interest has to yield to public needs, all it can justly claim is that it be paid out at its full value has gained ground. An instructive instance of the legislation referred to is the Defence of the Realm (Acquisition of Lands) Act, 1916, 6 and 7 Geo. V., cap. 63.

95. When the Purchase Board is formed, it, with the assistance of the arbiters, will no doubt regulate procedure and fix the scale of costs; but the Committee has thought it right to point out to the Government that unless the two points just mentioned be provided for, the equity of the terms of any transaction of purchase by the State will be greatly impaired.

96. In the Committee's opinion, as will have been observed, it is no part of its task to proceed to assess actual individual values. It considers, however, its duty to be to furnish to the best of its ability a statement of values en masse and on a national scale, and of the general lines, cost, and terms of the projected transaction.

#### PURCHASE AND MANAGEMENT BOARD.

97. Details and individual values will, the Committee presumes, be entrusted for working out to a permanent Board, to be called possibly the Purchase Board or Purchase and Management Board. One expedient might be to take the existing Lignor Control Board in so far as the same is applicable to Scotland and adapt it to the fuller purposes designed. But whether this be so or not, the Committee recommends, if purchase is to be proceeded with, that such a Purchase and Management Board be set up; that, as it will be the inheritor of the experience of the Lignor Control Board, it should be invested—subject to the exceptions about to be mentioned—with all their existing powers, and divested of the limitations arising from that Board being a war expedient; that further powers be granted to enable it to divide its forces or adopt suitable measures for overtaking the task set before it, but that (and this is the exception) it should be bound in its management to conform to the results reached under statutory local option, as well as to the magisterial sanction required for the grant of licenses. While it is not for the Committee to go further, and in this Report to shape the full details of a scheme, should the policy of purchase be entered upon, it has appeared to it expedient to state the general conditions, without which, in its opinion, the measure would fail to fit the case of Scotland.

#### AFTER PURCHASE: POSITION OF LICENSEE.

98. The sum of the figures already given is £5,343,500. This sum is an inclusive sum, that is to say, the figure is set down in order to let the Government understand for how much goodwill, stocks, and moveable fittings of public-houses in Scotland could be purchased, doing full justice to all interests therein.

99. The position of the licensee thus disposed of would be this: he would be in the possession of the sum paid to him by the Government. He would be relieved of all current contracts in connection with the trade. None of his other assets or liabilities would be interfered with. The arrangement of these would be his own affair, and he would be free to enter into the service of the Government if the latter resolved to continue the business, or employ him in any other capacity, or himself to dispose of his labours otherwise. While the seller would thus be free, it is, in the opinion of the Committee, desirable and important that the buyer, the Government, be also free, and that no arrangement, whether for service or otherwise, should form part of the transaction of purchase. Unless such entanglements be avoided there is a possibility of public loss, injury, and dissatisfaction.

#### AFTER PURCHASE: POSITION OF LANDLORD.

100. The position of the landlord of the premises in which the business is conducted would, in the opinion of the Committee, stand thus. When he was owner of the license—that is to say, carrying on a licensed trade in a house belonging to himself—no question would arise. He would be paid the sum settled for goodwill, etc., and would be bound to continue to let his premises to the Government as his tenant of the public-house, for the goodwill of which it had paid. In the case where the premises were let upon a lease contracted in bona fide before the date of the issue of this Report, the landlord should, in the opinion of the Committee, be entitled to hold the Government to this bargain, and failing this, the latter should be entitled to compensation. The two cases figured are these. First, the Government would continue the business under the lease and pay the stipulated rent. Second, if the Government, however, discontinued the business, the occupancy of the premises would revert to the landlord and the Government would be liable to pay the capitalized sum of the stipulated rent for the unexpired period of the lease, or of the difference between that rent and the rents to be obtained for other purposes by the landlord in the ordinary property market. Where there is no lease the Government so long as it carries on the business will continue as tenants at the old rent, or at such rent as falling agreement may be fixed by the valuer or arbitrator. It is evident, however, that such payments are conditional upon the policy to be adopted, after the event of purchase, by the Parliament and Government of the day. Should the business be carried on no sums will be due. In short, such payments form no part of the purchase price, but are dependent upon subsequent developments and administration in the hands of the Purchase and Management Board before mentioned. Such sums or any other allowances made (it might be, for instance, for reconstruction so as to convert the premises from licensed to an unlicensed trade) on the occasion of the stoppage of the licensed trade depend, as just explained, upon administrative policy, and do not enter the Purchase Account. In that account the sums affecting the business purchase are the items of goodwill, stocks and moveable fittings.

#### GROCCERS' LICENSED TRADE.

101. The considerations and principles above set forth as applicable to public-house businesses will largely also apply to the case of the grocers' licensed trade. They are accordingly not repeated.

102. It may be mentioned, however, that the steady decrease in the numbers of these grocers' licenses for many years past is quite as noticeable, and the rate of decrease is greater. Further, the evidence shows that the effects of the trade restrictions, not only under regulations made on account of the war, but by the legislation of recent years, are more powerful, and in many cases so powerful as to cause at least the licensed portions and the licenses to lapse. Sometimes the whole business is given up. Such licenses would never, in the opinion of the Committee, be renewed.

## GROCERS' LICENSES: PURCHASE ACCOMPANIED BY EXTINCTION.

103. Under legislation, for instance, the later opening—that is to say, not until ten a.m.—may be mentioned, and under the Regulations made by the Liquor Control Board the abolition of credit may be specially noted. This Regulation has been very effective in stopping a system which has been hitherto difficult to eradicate. The glaring defects, to use no stronger an expression, of that system have been long familiar to Scotland. The defects referred to affected the general system of supplying drink to customers in Scotland and were manifest in the national life long before the institution of grocers' licenses; but under these licenses the defects developed in insidious and highly detrimental directions. The Tippling Act was passed so long ago as 1751, namely, the 24th of George II., Chapter 40, under which no one could sue successfully for the price of any spirituous liquor supplied "unless the debt was bona fide contracted to the amount of 20s. at one time." The Act was often evaded; drink was entered under many devices in the merchant's book. Officers of the law were deceived. In many cases the workmen were deceived by the pass-books kept with the merchants by their wives, and containing fictitious entries suggesting that goods had been purchased instead of liquor. These fictitious entries were meant, of course, also to deceive a Court in case of inquiry. Credit continued very common, and scandals were frequent. As showing how deeply rooted the credit system still is, the Committee was informed of one instance in Dundee of a recent prosecution of one grocer who had ignored the regulations against credit, and who was charged with no fewer than 300 contraventions. The Committee is of opinion that it may be taken to be in the highest degree unlikely that even after the war, and although no step of purchase be taken, will credit be allowed again to be introduced by the normal small trader. It has thought it right to accept this as one of the probabilities of the case and entering in that manner into the question of values.

## GROCERS' LICENSES: FIGURES.

104. The number of grocers' licenses in Scotland was in the beginning of 1914 (the datum period already referred to) 3487. The figures which follow are given on the same lines as those already stated in reference to public-houses. The number of grocers' licenses was:—

1894	3830
1904	3950
1914	3487

The fall in numbers in these twenty years is accordingly 363, but this, to use the language already employed, imperfectly discloses the subject, and a more helpful view takes account of the relation which the numbers bear to the population. As already stated:—

1894	the population was 4,165,606
1904	" " 4,563,985
1914	" " 4,747,167

The relation of the number of grocers' licenses to population is accordingly:—

1894,	1 to every 1087 of population.
1904,	1 to every 1155 "
1914,	1 to every 1369 "

105. In the four cities visited by the Committee the figures stand thus:—

	1884.	1894.	1904.	1914.
<b>EDINBURGH:</b>				
Population	242,802	272,683	331,977	331,509
Grocers' licenses	460	380	421	347
Ratio, 1 in	528	717	788	967
<b>GLASGOW:</b>				
Population	511,415	674,306	782,110	1,032,600
Grocers' licenses	252	313	300	342
Ratio, 1 in	2,029	2,154	2,607	3,017
<b>DUNDEE:</b>				
Population	142,454	158,719	164,369	177,800
Grocers' licenses	207	208	195	193
Ratio, 1 in	688	763	842	919
<b>ABERDEEN:</b>				
Population	100,300	130,600	164,124	189,500
Grocers' licenses	260	235	206	184
Ratio, 1 in	400	555	800	866

106. The effect of these figures is even more striking than in the case of the estimates in the number of public-houses taken both absolutely and in relation to the population served.



## GROCERS' LICENSED TRADE: VALUES.

107. To the general considerations and principles which are already mentioned there must, however, be added as applicable to the case of grocers' licenses two noticeable facts arising from within the liquor trade itself. A representative appointed to give evidence by the trade in Leith stated his opinion to the effect that there was very little value in the goodwill of grocers' businesses. As showing the violent variation of opinion, however, upon this subject, it may be added that Mr Marshall, who ably represented the licensed retail traders of Scotland as a witness before the Committee, stated the value of the goodwill of licensed grocers' liquor interest to be ten years' purchase of net profits. The Committee, however, views both of these classes of evidence as extreme. After full consideration the Committee is of opinion that the goodwill of the liquor trade done by grocers may be justly put at two years' purchase of the net profits of their licensed trade.

108. These net profits it is almost impossible to disentangle from the profits of the business as a whole, and, on this account, the Committee has felt itself compelled to include this item within the general head of miscellaneous and incidental payments.

## GROCERS' FURTHER CLAIMS.

109. Grocers would further, as in the public-house case, be entitled to be relieved of current contracts, including obligations under contract of lease, and would be entitled to be paid for moveable fittings and tenants' fixtures used exclusively in the liquor trade and existing stocks. For the individual cases a minimum of one year and a maximum of three years' purchase would apply. Within these limits the same principles of arrangement, inquiry, and arbitration as has been already stated would also come into operation. It is possible that the abolition of licenses would induce in some cases the cessation of trade as a grocer. The Committee quite understands how in the past the possession of the license has enabled general business to be attracted, customers desiring the convenience of buying the whole of their stores from one shop. This loss of custom will not now occur on that head, however, owing to this cause: the unlicensed shop will have no licensed rival. The multiplier of two years' net profits of the trade in liquor has been fixed to cover all contingencies of disturbance to the general trade; otherwise, a lower multiplier would have been stated. In the case of licensed grocers' businesses the value of stock and fittings may be taken to be £99,000. Of this sum £38,000 represents stock, and this item will be dealt with on the same footing as in the public-house case.

## GROCERS' TRADE: LANDLORDS.

110. When the question of the interest of the landlord emerges, however, the difference between the two cases of public-houses and grocers' licenses must be faced. That difference is this. In the case of public-houses it is possible that the business may be continued at least in many cases and at least for a number of years, so that it is impossible to state beforehand how many and what particular licenses of this class would be abandoned. Such abandonment will be part of the subsequent policy of management of the trade as a whole.

111. But the grocers' licensed trade appears to the Committee to be differently situated. In its opinion it is clear that the nation would not carry on such a trade. The idea that the State would become owner of the whole business of the grocer—that is to say, take over the sale of groceries as well as drink, and thereby put itself into competition with all the grocery trade of the country—cannot be entertained. And further, the idea that the State as owner of a licensed portion of the business would join with the grocer as the owner of the rest of it, and that the business should be conducted on that footing, is equally out of the question. In short, the Committee does not hesitate to say that it must be considered to be part and parcel of a transaction of purchase of grocers' licenses that they are all suppressed. The State may choose other directions for conducting off sale. It might have to make inroads into the ordinary Licensing Laws in order to enable it to do so, but these things are questions of policy with which the Committee as such has no concern.

112. The consequent position of the landlord of grocers' licensed premises has to be considered. A part of the trade for which they were let is gone. It may be mentioned that the statute of 1913 in dealing with leases of all licensed premises whose certificate was not renewed by reason of the exercise of the powers of local option, simply declared that the leases of the premises should cease and determine. The Committee might have some unwillingness to suppression effected, not under, but separate from, and in anticipation of, the statute as regulated by the principle of its provisions.

113. But the problem turns out not to be serious, and indeed, according to the evidence given, does not arise upon the facts. It is necessary to explain that the commercial change effected in the value of public-houses and of grocers' premises by the *de-licensing* thereof is greatly different. In the former case many instances occur of licenses in back or side streets where there is little commercial business, and where accordingly the values may be seriously lowered, and reconstruction—possibly into dwelling-houses only—would be costly. In the latter—the case of grocers' premises—the situation is nearly always a business situation, the values of the premises are business values.

114. And the point is that after the loss of the license the premises, according to the evidence mentioned, do retain as lettable property their former value. This is vouched for by the best available evidence in Scotland, namely, that of Mr Blair and his entire staff of forty valuers throughout the fourteen districts into which the country is divided. Mr Blair's particular and prolonged attention was directed to the problem, and the result is as stated. The Committee, however, notwithstanding this evidence, still has the feeling that there may be individual cases where a real loss of rent may occur, and it is unwilling to rule such cases out of compensation. It accordingly recommends that where a case is put forward as exceptional, it should be open to the valuer or arbiter to make an award up to the sum of one half year's rent of the premises, or of such portions thereof, in the case of large businesses with separate

departments, as in the valuer's opinion would be treated as allocated to the licensed liquor trade. No separate entry is made of this hypothetical item: it will be covered by the amount hereafter stated for incidentals.

## HOTELS.

115. In approaching the case of hotels, the Committee desire to explain that the dimensions of the subject from the point of view of social importance and convenience are not so great as is generally supposed. A very large number of these inn and hotel licenses, the number of which is in Scotland 1238, are granted to houses all over the country which do little else than a public-house trade. The true meaning of the separate license is that it is generally a seven-day license, and business can be conducted with residents, or with *bona fide* travellers, on Sundays. As for the general accommodation of the public, on the other hand, it has appeared to be quite clear that licensed hotels do not form a great element in satisfying any real demand for liquor on the part of the people. One illustration may be given. The population of Glasgow, by the latest available statistics, is about 1½ millions. To supply the hotel needs of this large body of people, about one-fourth of the population of Scotland, together with the great travelling public who resort to that city, it might have been thought that licensed hotels possibly to the number of hundreds would have been required. In point of fact the number is only fifteen, by far the most important of which are the great station hotels.

116. It thus appears to the Committee that this is a case in which, if purchase be carried through, very considerable readjustments would follow even although the trade in drink was carried on. Many of these licenses would disappear as such. Some would be merged in the public-house list, and others would be deprived of licenses and be conducted, in many cases as very profitable concerns, as temperance hotels, the number of which in Scotland is relatively large.

117. The Committee cannot leave this subject without pointing out to the Government the complexity of the operation of entering upon possession of businesses which are in the most valuable class businesses connected with the accommodation of travellers and the carrying on of a trade not necessarily a licensed trade. The figures have been brought together by the Committee because in its opinion without furnishing these it would have failed to exhaust the remit made to it. But the Committee repeats that there are various questions for consideration, notably the shutting up of restaurants in hotels, the confinement of hotel business to liquor supplied to visitors accommodated thereat, and topics of that nature, to which subjects the Government would have to address itself if it faced a transaction of purchase of this particular class of trade. The Committee is not to be held as expressing any opinion upon these subjects. Indeed the Committee may at this stage state to the Government quite clearly that, while the figures which are hereafter summed up in this Report embrace the various items of the licensed trade in Scotland, it in no way follows that the action of the Government should extend to all or any of these items. The question of purchase of the whole or of any part is entirely a question for the Government of the day, and upon that the Committee, as already indicated, has scrupulously avoided expressing any opinion.

118. As stated, the number of houses certificated as inns and hotels in Scotland is 1533. So far as the hotel-keepers' business is concerned, the net annual profits of their entire trade is £478,918. In this case a certain portion of that trade would be unfettered by licensing restrictions. Accordingly, if the business has, to the extent of 50 per cent., its drawings from its licensed trade, the Committee is of opinion that the same multiple of years should be taken as in the case of public-houses. The number of such cases is stated at, say, 1200—which is purely an estimate. The average profits proportionate to that number, upon the principle adopted in this Report—Paragraph 80—is £395,118. In the case of the instances where the business done is really a public-house one, the figures and procedure applicable to public-houses would accordingly be adopted. In other important cases, numbering, on the same provisional estimate, 333, the purchase would be limited to the licensed part of the trade, the net profit from which is estimated at £47,410 per annum. While the average of three and a half years' purchase of the profits thereof would apply, the Committee, in view of the possible dislocation of the remaining trade, suggest that the minimum value for this class of hotels should stand at two and a half years' purchase of net profit, and the maximum at five years. So far as the purchase of the businesses is concerned, the transaction could be worked out upon these lines. The two sums amount to £312,528 of annual profit. This, multiplied by 3½, reaches the capital figure of £1,093,848, which is brought out as the purchase price. The sums for fittings and stocks under this head amount together to £227,070.

## HOTELS: LANDLORDS' POSITION: CLUBS.

119. With regard to the property in which hotel businesses are carried on, the case is different from that of properties licensed as grocers' premises. In the latter case suppression of the licensed trade is contemporaneous with and a practical necessity of the transaction, and the heritable property would thus be left with the owner, full compensation being made to him for the difference in value by the permanent disappearance of that trade. In the former, the hotel case, such suppression is not a necessary consequence of purchase and would depend on the general policy to be adopted by Parliament, or the particular policy adopted by the Purchase and Management Board. For this reason, accordingly, all the calculations as to landlords' interests in current leases which are stopped are inapplicable: they might not be stopped; the State might continue the tenancy, and allowances made on such heads do not arise. The State must for itself face the situation of the composite trade of hotelkeeper being carried on for such a period, long or short, as it may determine. As in the case of public-houses, the stopping of the carrying on of the liquor business in the premises is no necessary term of the sale and transfer of the license, and so does not enter the present purchase transaction: when the fate of the premises is afterwards determined, it will be on such terms as will be afterwards settled. In the case of grocers' licenses, that business ends, and the owner of the premises is entitled to be settled with now and the depreciation, if any, of his property at once paid. In the case of hotels the business may be stopped

or continued according to the general or particular policy adopted after the business is required, but if continued two cases would arise: (1) Many, possibly two-thirds, might be declassified into public-houses and the business continued in that character. Settlement of landlord's compensation for such declassing, if the value has truly been reduced, would take place when that event occurred. (2) The others would be continued as hotels, and if so, the Committee, as already indicated, thinks that the State must face the problems that arise in that connection. Until stoppage no landlord-loses or depreciation would arise. When it did arise—it might be many years after purchase—the occasion would then have arisen for settlement of a figure and for payment, or for—as might frequently be the case—an arrangement for conversion and transfer of the business, or the introduction of other commercial elements.

120. The Committee cannot keep out of view on this head the particular case of Railway Station Hotels. Immediate acquisition of all hotel premises in the country has occurred to many as a solution of the difficulties—the idea being to produce a settlement with the owners as well as licensees, and a closing of the entire transaction—once for all. There is not a little to be said for this view; but it is clear that such a solution would be a work of the greatest complexity, colliding, it might be, violently with other public or railway arrangements. Such cases are, in the Committee's opinion, more suited to subsequent individual and careful negotiation than to a broad and sudden dispropriation of railway companies of valuable land and property lying near the centres of their enterprise. It might be held that if the State is to purchase the liquor trade, it must in the case of hotels purchase the whole trade done therein; that it must, so long as the trade is continued, be so constituted by the State as tenants; and that when and not until discontinuance occurs will questions of landlords' compensation arise. Such questions are no part of the purchase transaction with which the Committee has to deal.

121. The question as to the amount of rent to be paid by the State would be settled, failing agreement, by the official arbitrator in all those cases where the owner or railway had carried on the business, or where current contracts came to an end. This principle the Committee further recommends as applicable not only to hotels but, as has been stated, to public-houses. In the hotel case the allowance for declassing would be similarly disposed of.

122. The position of Clubs is that, although in fact they purchase liquor for consumption by their members, they are not engaged in trade. It is illegal for anyone concerned in the management of Clubs to make any private profit from such dealings. Clubs, in short, are simply private buyers, so far as the liquor trade is concerned, in the same way as other citizens or bodies of citizens. They might, of course, as the result of State action in certain directions, be affected in their conveniences or possibilities of buying, and it may be found necessary to make regulations as to the hours of drinking so as to put an effective stop to a defeat of general regulations upon that head. But no question of purchase, such as is the subject of the present remit, arises for determination by the Committee.

## WINE MERCHANTS.

123. There were certain other minor items to which brief allusion was made in the evidence before the Committee. They would not in the Committee's opinion seriously affect the total amount of purchase money. Chief among these is the case of the wine merchants, and the Committee recommends that this class be dealt with on the same footing and scale as that of hotel-keepers. It may be further added that many of the wine merchants are also blenders, and where this is so the Committee thinks that the scheme and rates applied to the case of the blenders should be applicable to the wine merchants' businesses, including this element of trade. On the whole, this class, limited, that is to say, to the non-blending wine-merchant class, and also the smaller classes being supplied as under the certificates in regard to sweets, etc., need not be separately handled here, and their interests may be considered to be covered by an inclusive sum which will afterwards be stated, and which is meant to cover these cases as well as the incidental charges which will accompany the transaction. This completes the inquiry with regard to the distributive portion of the licensed trade in Scotland.

## BREWERIES.

124. The Committee now proceeds to the manufacturing trade. These trades are five in number, but fall practically into two classes. First, the brewing trade: and a small trade done by bottlers may be dealt with at that point; second, the trades of distillers, of blenders, and of rectifiers. These cases will be considered in their order.

125. There are seventy breweries in Scotland. The annual net profits of these breweries is £394,080 per annum. Many of the breweries are limited concerns. Some are old businesses in old premises and privately conducted. Other businesses, whether limited or not, are in new and up-to-date premises. The Committee is of opinion with reference to the whole class of manufacturing trades, which are cases of businesses conducted as commercial concerns by persons, firms, or companies which own the premises, that the entire transaction of purchase must be contemplated as one in which the Government is to pay out the manufacturers in both capacities. The Committee resumes consideration of the brewers' trade upon that footing.

126. The net annual profits of the brewery trade in Scotland is, as already stated, £394,080. This is the average of the trade done by these breweries during the three pre-war years of 1911, 1912, and 1913. This profit is made not in an ordinary commercial trade, but in a trade subject to, it may be, very considerable vicissitudes, so far as Parliamentary action is concerned. It cannot be left out of view that the earlier closing and the advent of local option, both under statute, are not unimportant in that category. It should be mentioned in regard to this that about two-thirds of the brewing trade in Scotland is a home trade, and to that extent it is within the range of liquor-trade restrictions. It is only just to observe that so far as restriction under local option is concerned, the brewing trade's contention is correct

that restriction in particular districts, say, particular wards of burghs, would fall with lighter effect upon the sources of supply like breweries because of the increase of custom in the unrestricted areas, and this undoubtedly mitigates, so to speak, the blow of restrictive administration. Where, under Local Veto, prohibition in particular areas was voted, the same consideration would apply, and it would not be until restriction and prohibition had proceeded to a considerable extent that the effect on the restriction of supply by brewers would be so greatly marked. The circumstance of past legislative and future administrative interference must to that extent be discounted.

127. There are, however, other serious considerations. The Committee cannot shut its eyes to the fact that the experience of restrictions under the regulations issued by the Central Control Board, and the manner in which these restrictions have been accepted by the population of Scotland, may have an important bearing upon the future of this trade even when normal times are resumed. Nor is it to be left out of view that the straitened finances of the country are not likely to leave taxation of brewing interests in anything like the position that they were in up to the year 1914.

128. By that time the general Budget of the country had swollen to over 200 millions per annum. New sources of taxation were being looked for, and after the outbreak of war the following changes, astonishing as regards amount, were made:—On 23rd November 1914 the Beer Duty was increased from 7s. 9d. to 23s. per standard barrel, and by the following April to 25s. It is true that these were war duties, and it is also true that during the course of the war years nothing of the kind could be anticipated, and that therefore they ought not to enter into the valuation. That is to say, brewers are entitled to have their businesses bought upon a survey of normal conditions. All that can be said upon the subject, however, is that even before the war it was increasingly evident that the trade was subject to considerable disturbances both on the lines of restriction and on the lines of taxation.

129. As an illustration of the impropriety of introducing war conditions into the calculation so as to depress the volume or value of business, it may be mentioned that on 1st April 1916 production was restricted to 85 per cent. on the basis of the financial year 1915-16, or, alternatively, to 70 per cent. on the basis of the brewing year ending 30th September 1914; while on April 1st 1917 production was restricted to 33½ per cent. on the basis of 1915-16 financial year, or 28 per cent. on the basis of the year ending 30th September 1914. Some variations have been made with regard to these figures, but it is only necessary to look at them to see that it would be improper in a matter of valuation to permit the Government first to limit the supply, and it may be largely to limit the profit, and then to purchase the business on the scale thus limited by Parliament. This would be to permit the State first to create an abnormal situation, and then to take advantage of its own action by buying at an abnormally low figure during the abnormal period. The Committee, of course, cannot recommend any course of conduct of that description.

#### BREWERS' VALUES.

130. The settlement of a figure applicable for the purchase of the brewery trade the Committee has found to be accompanied with very considerable difficulty. It turns out that the cases of transfer which have fallen within the range of the Committee's experience have not proceeded upon an estimate divided into its elements of profits converted into goodwill and of buildings to which a multiplier is upon data given by the valuation roll could be placed. The difficulty is accentuated by the fact that, attaching all due weight to the testimony placed before it with regard to the accuracy of valuation rolls, the Committee feels that these rolls, in the case of breweries, do not afford sufficient material for enabling the Committee to say that the annual values there brought forth are either in accord with the books of the concerns involved or with the facts of the case commercially viewed. Some of the buildings are new and excellently adapted to modern requirements; others are old and not so well adapted to these. This difference, however, although not exactly, still to a considerable extent, does approach the ratio of profits earned on account of the notorious fact that good equipment in the majority of cases runs with good profits.

131. Instances in an opposite direction may occur to the mind, but the Committee inclines to the view that the brewery trade is singular in respect that it is conducted in the brewer's own buildings and provides, *inter alia*, large storage accommodation in all cases for the output; and after discussion it thinks that the line of safety in this case is to follow the commercial practice and to state an overhead figure which would cover the value of the brewing businesses and all required in connection therewith, namely, lands and heritages, water rights, moveable plant, tools and utensils, trade marks and goodwill. The Committee accordingly fixes an overhead average in this case of eight years' profits, the sums to cover all the items referred to. The minimum would be seven years and the maximum six years. Within these extremes valuation should proceed upon the principles already laid down.

132. Taking the eight-years' period just mentioned, the figure reached is £3,152,640. In the opinion of the Committee the entire brewing trade of Scotland, together with all the properties in which the trade is carried on, could be purchased for that sum, in addition to a sum for stock, unascertainable as a precise figure, but which is included in the general covering figure appearing in the financial summary. Evidence was led, it may be mentioned, before the Committee with regard to one brewer, part of whose assets was the possession of several tied houses in England. Such assets are not included in the estimate now furnished, and they would, no doubt, be valued in accordance with the report and action of the Government applicable to the liquor trade in England.

133. Other points in connection with this trade, namely, first, the position of firms or limited concerns which are left in the possession of other assets, say, in land which is not required for the purposes of the business; second, the position of limited concerns in regard to the variety of their holdings, debentures, or otherwise; third, what is the position of the Government with regard to the export business done by all these manufacturing trades; and fourth, how are companies to be dealt with whose sole or main business is destroyed by the purchase. All these topics will be dealt with after the case of distillers, rectifiers, and blenders, in regard to whom the same questions arise, have been disposed of.

## BOTTLERS.

134. As the Committee was concluding its evidence testimony was tendered to it by Mr Sillar, who represented the trade of what is known as bottlers. This is a trade which is not of large dimensions, but it is not an allied trade in the sense dealt with in this Report. It must be recognised that the bottler, whose business is conducted on the principle of buying the beer in wholesale quantities from the brewer, of bottling the product and of selling the bottled article to publicans or grocers, is one of those trades which fall within the scope of the inquiry and must be dealt with. Owing to the circumstance of the late arrival of the witness and his inability to furnish statistics, it was impossible for the Committee to do more than to take note of the position which he formulated. The Committee, however, is of opinion that this class of trade is entitled to the same treatment and recognition as the class of licensed grocers. The distinction between this class of trade and what are called "allied trades" is broadly enough indicated by the fact that the bottling trade proceeds only upon a license; the allied trades require no license for their avocation. No separate sum is indicated in the Report on this head. The resultant figure will no doubt be more than embraced in the sum mentioned for incidentals, as after stated.

## DISTILLERIES.

135. Distilleries in Scotland are of two classes, namely, those manufacturing pot-still and those manufacturing patent-still whisky. There have been considerable vicissitudes during the last quarter of a century in regard particularly to the pot-still trade. Reference has been already made to a period of great inflation about twenty years ago. At or about that time, particularly in the north and north-east of Scotland, great expenditure was incurred in the erection of distilleries. It was quite unwarranted by the then condition of the trade, and the future for which it was providing never arrived.

136. The production of Scotch whisky far exceeded the consumption. Between the years 1900 and 1905 the excess of whisky stored in warehouse exceeded the removals from bond in Scotland by no less than 18,480,000 gallons. Prices reached a low level, and though in most of the years following 1905 a curtailment took place in production more near to the quantity required for consumption, still prices remained low: a large quantity of spirits still remained in bond. The depression in the trade extended to the whole of it, both to the pot-still and the patent-still whisky trade.

137. In May 1915 the Immature Spirits (Restriction) Act came into operation. It provided that no British or foreign spirits should be delivered for home consumption "unless they had been warehoused for a period of at least three years." A concession was made, however, as regards rum. From the date of the Act coming into operation, rum was for a period allowed to be taken out of bond after nine months' storage. This nine months was subsequently increased to twelve, and afterwards to fifteen months. The Immature Spirits Act had a marked effect on prices on account of the fact that it was soon realised that there was not a large enough stock of matured home-made spirits in the country to meet the demand for high-class blended whiskies. The figures on this subject are striking. Blended Scotch whiskies, which in 1914 were selling at 3s. 9d. per gallon in bond, were in August 1917 being sold at 25s. per gallon in bond. Even higher prices have been quoted. On 1st April 1917 the clearances of wines and spirits from bond were restricted to 50 per cent. of the quantity cleared during the year 1916. In the distilling season 1916-1917 malt distilleries were restricted to 70 per cent. of their production based on an average of the distillation for the last five years.

## DISTILLERIES: WAR CONSIDERATIONS EXCLUDED.

138. These facts have been cited in order to point two considerations. In the first place, it would be manifestly unfair to reckon the volume of business done upon the scale thus abnormally restricted during the period of the war. Distillers are entitled to be dealt with upon a pre-war footing, and a disturbing calculation of this kind should be excluded. On the other hand, the same cause gives rise to a further consideration in the opposite direction. It would be, in the judgment of the Committee, equally out of the question for distillers, rectifiers, or blenders to ask from the State a price which has been abnormally inflated by reason of special war legislation or regulations. If war considerations are to be excluded, they should be excluded whether resulting in inflation or in deflation. The inflation of price from 3s. 9d. to 25s. per gallon does not exhaust the peculiarities of the case, because under the regulations made as to the dilution of whisky, spirits must now be reduced to 30 under-proof before sale, and may be reduced to 50 under-proof without any intimation of such dilution being given. It is quite clear that these extremely abnormal figures could not be made the basis of an assessment of profit, except possibly by stating that if stocks were valued at such figures, no multiple of net annual profits whatsoever should be applied, and that the entire business might justly disappear on a payment of existing value of accumulated stock.

## DISTILLERS: APPLICATION OF EXCESS PROFITS PRINCIPLE.

139. But in the opinion of the Committee a more business-like basis can manifestly be obtained. This is done by simply taking the principle of the existing law with regard to Excess Profits and applying it to the transaction of purchase of whisky stocks by the State. A valuable memorandum on this subject was issued during the present year, namely, White Paper (Cd. 8523). On the passage of the Finance Bill of this year through the House of Commons, a certain amendment, powerfully supported, was placed upon the Paper with reference to bringing into account the stocks in hand. So important was the subject that the Government laid the position before a Committee of Accountants of the greatest eminence. That Committee's opinion was in these terms: "That all stocks of every sort or kind should be valued at the end of each accounting period on the basis of cost price or market value, whichever is the lower. This principle rests upon the theory (which is perfectly sound) that profits can only be realised by the sale

of commodities, and that no profits can arise by mere increase of value unaccompanied by a sale. To follow this out consistently, stocks therefore should be carried at their cost price until they are sold and the profit is ascertained. Where, however, the market price is lower than the cost, a precautionary reserve is permissible for the difference between the cost and the market value." His Majesty's Government adopted this principle.

140. What it comes to is this, that inflation of value of stocks, as, for instance, stocks held in bond does not enter the account until these stocks are sold. When, however, the stocks are sold, in the ordinary course of trade, the profit upon the transaction becomes part of the trading profit for the year. It is beyond the province of the Committee to make any legal pronouncement as to whether the transaction of State purchase would fall within the law as it now stands. But the application of the principle of the Excess Profits tax to this transaction is one which it would be expedient to have made thoroughly clear by the Legislature. The sums at stake are too great to leave to the hazard of general expressions in the existing statutes.

141. The Committee is not moved by the consideration that this is applying the principle of Excess Profits to what may be termed an excess upon capital. It is not in principle an excess upon capital. If it were, there might be a good deal to be said for the view that that ought to make no difference; but the safer plan has been adopted by the Inland Revenue of waiting for realisation until the period of striking the excess. But in the case under consideration, namely, purchase by the State, the very period has arrived of removing the article, namely, the whisky in bond, from stocks in hand and including it under the heading of sales.

142. Accordingly, all that has to be done in order to subtract from the abnormal inflation already referred to is to allow the operation of the Excess Profits law with regard to them to proceed. Under the operation of the Finance Act, a trader is allowed as a standard profit the average on the basis of the best two of the last three pre-war years. Further, in the preparation of accounts for excess profits duty, he is entitled in his return to charge to the account:—

- (a) His stock on hand at the opening of the account;
- (b) The cost of his purchases (in this case mainly single whiskies); and
- (c) The working expenses and other necessary charges.

On the other side of the account he credits the sales during the accounting period, and any stock on hand at the close. From the difference between the two sides of the account, being the profit, he is entitled, before striking the sum upon which excess profits duty is paid, to deduct the standard profit and to retain 20 per cent. of the balance.

The amount of stocks in bond purchased for the normal figure, and still by virtue of the legislation confined in bond and unrealised, may be taken to be 96,000,000 gallons. As the Committee is of opinion that stocks not in bond but still in the hands both of distillers and blenders should also fall under the principle above mentioned, an addition of 1,000,000 gallons is made under this head. The total quantity is thus 97,000,000 gallons. This amount, put at an average of 25s., would reach the large total of £21,250,000. The correction, however, by the deduction of the 80 per cent. is one which, in order to give a correct view of the effect of purchase as a legislative Act, it is expedient to state now. The 3s. 3d. must be paid. The difference between that and the 25s. is 21s. 3d. Twenty per cent. of this is 4s. 3d. The net purchase figure, accordingly, for such stocks is 3s. 9d. plus 4s. 3d., namely, 8s. a gallon. The sum, multiplied by the number of gallons already mentioned, reaches the figure of £58,800,000.

143. The figures just given, although taken at 3s. 9d., would, of course, when the individual transactions of purchase came to be carried through, be rectified according to the actual prices paid. The actual prices paid might greatly vary: Mr Ross gave instances of whisky purchased for as low as 1s. 6d. per gallon, Lord Forteviot instances of a price of 3s. per gallon, and Mr Marshall 3s. 7d. But the figure upon which the Committee's calculations proceeds is stated in order to apprise the Government of what in its opinion is, stated roughly, the sum of price which would have to be contemplated. When the individual purchases take place, the estimate would yield to the actual facts of each particular case, and in this connection, care would, no doubt, be taken by the Government to see that the prices set down represented actual and bona fide transactions.

144. The Committee has given much care to the method to be adopted in arriving at the purchase price of the businesses of (1) distillers, as a class, and (2) rectifiers and blenders, as a class. It is true that numbers of traders are engaged in both branches, namely, as distillers and also as rectifiers or blenders. But, in the Committee's view, the case of the distillers is distinct in principle in this sense that they, the brewers, are manufacturers, and that they are manufacturers in large and valuable buildings—which form a not inconsiderable quota of their working capital. The buildings also, as in the brewers' case, are often remote and produce the same difficulties with regard to annual or capital valuation. The Committee, accordingly, thinks that, in this case also, the overhead principle ought to be applied. In the case of distillers the amount of real estate is, when taken as relative to the profit earned, smaller than in that of the brewers; and the Committee suggest an average multiplier of seven years of the annual profits, with a minimum of six years and a maximum of eight years. The annual profits made from the distillery business, as such, in Scotland were, on an average of the three years already dealt with, £782,040. This, multiplied by seven, yields an average purchase price of £5,474,280.

145. The case of rectifiers and blenders is largely different. They are not manufacturers in the ordinary sense of the term. The stocks they deal in are almost entirely in bond. The buildings necessary for the business are relatively smaller in value, and, furthermore, these buildings are more in *commercio*, as, for instance, in large towns and places where the materials open to an assessor in arriving at an annual value are fuller and more trustworthy. It is thus possible to adopt, with more accuracy, the principle of a separate multiple of profits for goodwill, including trade marks, and to add thereto the ascertained value of the buildings, including fixed machinery, water rights, moveable plant, tools and utensils.

146. In the Committee's opinion the value of the blenders' and rectifiers' businesses is four years' purchase. Their average annual profits are £957,880, which, multiplied by four, produces a lump capital sum of £3,831,520. The annual value of buildings, according to the Valuation Rolls, is about £75,000.

As much of this property is urban and in good situations, an inclusive multiplier of thirteen years might be held to be safe. The resultant figure is 2975,000. Of course the individual cases would be settled by individual valuations.

### REMAINING ASSETS OF FIRMS.

147. The Committee now desires to deal with the points already stated as reserved. First: It has been mentioned to the Committee that the position of firms, and especially limited concerns which are engaged in the manufacture of liquor, ought to be approached by the State from the point of view of the disposition of these firms and companies of their entire assets. The case has been figured, say, of a limited concern, part of whose assets consist of land, houses, or other properties, which are not in point of fact connected with the carrying on of the business either at present or prospectively. These properties may have been bought as a means of laying aside surplus capital, or as part of a slump transaction in which assets really required for the business had to be acquired. But in any case, it appears to the Committee that the problem of the purchase of the liquor trade need not be mixed up with either the use or ownership of assets which are unconnected therewith. There does not seem to be anything to justify the approach of the question of the purchase of the trade on the principle of substitution of the purchaser into the whole rights, property, and assets which a trading concern may happen to possess. Accordingly, this suggestion is excluded from consideration. The transaction has been confined to its own proper limits, viz. to the purchase of one particular asset, namely, the trade and the property required for it. This topic is further referred to under head four.

### LIMITED COMPANIES.

148. Second: The same fallacy as that already alluded to appears to underlie the suggestion as to limited companies. These companies hold ordinary and, it may be, preference stocks. They may also have borrowed some of the money upon debenture or mortgage, having debentures, mortgages, or debenture or mortgage stocks accordingly. The question has been put to the Committee how it is proposed to deal with that variety of stocks. To this question the same answer is given. What is being purchased, and the entire compass of the transaction of purchase, has reference to one particular asset, namely, the business and the property used or required for that business. With the distribution of the sum so acquired the Government has no concern. It may be that a Limited Company has traded largely on borrowed capital. This indeed may also be in the case of any firm or private trader, but it is no necessary consequence that the purchaser of a particular asset is concerned with the distribution of that asset. The Company from whom it has purchased has the duty to pay its debts and divide its capital according to its legal obligations. This point is also further dealt with under head four.

### EXPORT TRADE OF BREWERS AND DISTILLERS.

149. Third: Anxious inquiry was made on the subject of whether it was possible for the State to acquire the home manufacturing business of brewers, distillers, and blenders to the exclusion of their export trade. The Committee have little hesitation in accepting the verdict of such men as Sir George Younger, representing the brewers, and Lord Forteviot, representing the distillers, to the effect that it will be practically impossible to split up these trades by purchasing, so to speak, one fraction and leaving the existing owners in possession of the other to be handled along with stone and lime, business connection, and all the rest, but confined merely to export. There would be inevitable, and perhaps insuperable, difficulties in attempting any allocation on a footing of this kind, and although the difficulties of the position are realised, no course seems open except to advise the Government that if the policy of purchase be adopted it ought to be purchase of the entire trading concern as it stands.

150. It has to be borne in mind that in each of the cases of distilling, rectifying and blending, and of brewing, one-third of the business is Colonial or export trade. And the Government is accordingly confronted with the proposition that if it is to acquire, for reasons which are social reasons, promoted by social demands arising at home, these businesses, it will have on its hands a very considerable export trade. The Government must, in the opinion of the Committee, face this whole position. It is open to it afterwards, if so advised, to use the distilleries solely for national needs in the making of alcohol for manufacturing or medicinal purposes. And it is possible to figure a case of prohibition which would thus limit the operations. Whether when such an event occurred it would be possible for the Government to maintain the supply to foreign peoples, or to our own Colonies, a supply which had been extinguished for social reasons at home, all these things are matters of policy for the Government to consider. But the situation with regard to purchase is, in the Committee's opinion, as stated.

### LIQUIDATION OF LIMITED COMPANIES.

151. Fourth: The case remains of Limited Companies whose *raison d'être* was destroyed by reason of the purchase. Such companies might be in possession of considerable assets, but yet in effect and even by its Memorandum of Association or Articles of Association might be limited for trading purposes to the manufacture of drink. Accordingly, when the principal, if not the sole, object of its existence was removed, the question arises, what would then have to be done? This is one of the arguments underlying the suggestion that the State should buy out the companies as a whole, but, in the opinion of the Committee, what ought to be done is much simpler.

152. The Committee recommend that the Act of Purchase should operate *ipso jure* as a ground for liquidation. The principle of this is perfectly familiar in Company Law. In 1867 it was authoritatively decided that it was just and equitable that a Company should be wound up when "the whole

substratum of the partnership—the whole business which the Company was incorporated to carry on—has become impossible”—per Lord Cairns in *re Suburban Hotel Company*, 2 Ch. Ap. 750. This doctrine has been frequently followed by the Courts. The Companies (Consolidation) Act 1908, by section 123, provides that a Company may be wound up voluntarily if, by Special Resolution, it so resolves. The Committee recommends that, should a Purchase Act be passed into law, it should contain a section declaring that such passage should operate as if Companies whose business was affected by it had passed Special Resolutions for voluntary winding-up. As to such company so placed in liquidation, the liquidation would be conducted under well-known rules, and the duty of the Liquidator would be to collect the assets, including the great and principal asset of the sum received from the State, and thereafter to distribute the assets in payment of the debts due, and according to the priority to which they were entitled by law, and thereafter to distribute the remaining assets, all in terms of the Memorandum and Articles of Association. It would be competent for the Court, in its discretion, to make, under section 199 of the Companies (Consolidation) Act, 1908, on application to it, an order that the voluntary winding-up should continue, but subject to the supervision of the Court.

### TOTALS.

153. The sum of purchase price thus due from the State would be—to gather the figures above set forth—as per:—

#### CONDENSED SUMMARY.

1. <i>Public Houses.</i>		
Goodwill, fittings, and stock		£5,343,500
2. <i>Licensed Grocers.</i>		
( <i>N.B.</i> —Goodwill included below under item 7.)		
Fittings and stock		99,000
3. <i>Inns and Hotels.</i>		
Goodwill, fittings, and stock		1,330,918
4. <i>Brewers.</i>		
Goodwill, buildings, and plant		3,152,648
( <i>N.B.</i> —Stock included below under item 7.)		
5. <i>Distillers.</i>		
Goodwill, buildings, and plant		5,474,330
6. <i>Rectifiers and Blenders.</i>		
Goodwill	£3,831,520	
Buildings and plant	975,000	
		4,806,520
7. <i>Miscellaneous and inclusive</i>		2,350,000
		<hr/> £22,446,896
To this there falls to be added:—		
*8. Whisky and other liquid stocks in bond and held by distillers, rectifiers, and blenders,		£38,800,000
		<hr/>
The resultant total is		£61,246,896

\**N.B.*—This figure is based upon the data already mentioned. But the Committee, in view of the changing values of this class of stock, again calls attention to possible alterations in such data, and to the uncertainty of the operation of the rules regarding standard pre-war profit, which would, of course, affect the sum of this item.

The figure in item 7, namely, £2,250,000, includes the items referred to in the Report as unascertainable with the precision which would have justified separate entries, namely, the goodwill of the grocers' licensed trade, the possible compensation to landlords of certain grocers' premises, the amount to be paid to such wine merchants as are not already included in the entries applicable to rectifiers and blenders or grocers. The award to be made to bottlers and also brewers' stocks. It is also given as including all the expenses of law, arbitration, and valuation.

154. In return for this, in addition to the major consideration of securing control, the Government would be invested in all the businesses named. It would also be invested in very large and valuable assets in the shape of land, buildings, and stocks.

155. It will be for the consideration of the Government in what form the purchase prices should be made to the various vendors. This Committee, while of course leaving the matter in the hands of the Chancellor of the Exchequer and the Government, thinks it right to make this observation, that the accounts of the Nation should be so kept that the financing of this particular transaction should be in such a form as to facilitate a survey at all reasonable financial intervals of the question of the State's conduct of the liquor trade.

156. It is unnecessary to make any Summary of Recommendations, as such recommendations appear at the end of each separate heading of this Report.

157. The Committee cannot conclude its labours without expressing its high admiration of the unwearied labours and exceptional skill of its Secretary, Mr Norman Macpherson. He has had in the course of the inquiry to have communications not only with Government Departments, more particularly with Inland Revenue officials, but also with Public Authorities in various parts of the country and with traders, and in the course of these communications the Committee feels that his ability and unflinching courtesy have stood it well in securing for it masses of fact and avenues of information which might otherwise have been lost to the public.



158. To Mr Cotton's services, which the Committee much appreciates, it has also referred; but the Committee desires again to mention in particular the conspicuously laborious work of Mr Blair of the Inland Revenue, Chief Government Valuer in Scotland. The Committee does not overestimate those labours by saying that it would have been impossible for it, without his assistance and that of his staff, and also, it may add, without the much appreciated and very highly skilled aid of Mr Stamp and the Inland Revenue and Customs Authorities in England to conclude its labours in anything like the time allotted.

159. It may not be out of place, further, to record that the evidence furnished, and the documents laid before the Committee by the trade have been of great service, and have been supplemented in an especially clear and helpful manner by Mr Ross, Managing Director of the Distillers' Company, Limited, and by Mr C. H. Marshall of Messrs. James Watson & Co., Limited, Dundee.

We have the honour to be, Sir, your obedient servants,

SHAW OF DUNFERMLINE, *Chairman.*

WM. ADAMSON (subject to reservation below).

JOHN COWAN.

R. S. MEIKLEJOHN (subject to reservation, *infra*).

THOS. MUNRO (subject to reservation, *infra*).

WM. YOUNG.

NORMAN M. MACPHERSON, *Secretary.*

24th December 1917.

## RESERVATIONS.

### (1) BY MR ADAMSON.

I have signed this Report because of its historical value and the accuracy with which the legal position of the Trade is set forth. I, however, desire to state that I entirely disagree with the basis upon which the members of the Committee propose to compensate the various interests in the Trade, and, in particular, with the very large sums of money which would be involved in giving effect to their proposals, the amount of compensation being, in my opinion, out of all proportion to the interests at stake.

WM. ADAMSON.

### (2) BY MR MEIKLEJOHN AND SIR THOMAS MUNRO.

While we have signed the Report of the Majority as we are in agreement with its main conclusions, we desire to associate ourselves with the signatories of the Minority Report in their statement at the beginning of their Report, viz: "The Report of the Majority contains much material beyond the strictly limited terms of the remit made to us by His Majesty's Government. It embraces expressions of opinion on disputable points and speculations as to the future action of the Government, of Local Authorities, and of bodies of electors. On these matters we offer no opinion; we are content to observe that in our view they are irrelevant to the enquiry on which we have been engaged and therefore ought not to be included in the findings of the Committee."

As regards the acquisition of whisky stocks, the procedure suggested in Paragraphs 39 and 40 of the Report of the Minority provides, in our opinion, a better principle upon which to work than can be obtained from the method proposed in the Report of the Majority. Under any scheme, however, there is risk that, in the acquisition of a commodity at the artificially inflated prices now prevailing, the Exchequer may be involved in heavy financial loss when normal conditions for the sale and distribution of whisky recur.

R. S. MEIKLEJOHN.

THOS. MUNRO.

## MINORITY REPORT.

TO THE RIGHT HON. ROBERT MUNRO, HIS MAJESTY'S SECRETARY FOR SCOTLAND.

SIR,—

We regret that we are unable to sign the Report of the majority, and feel obliged to present a separate Report.

From the latter, it will be observed that we do not differ materially from the conclusions of the majority in regard to the terms on which the businesses of retail dealers, brewers, and distillers should be acquired, and not at all as to the process of acquisition; and that, while we do not adopt the method as which the majority of the Committee propose to proceed in calculating the amount to be paid as compensation of blenders, our dissent from the majority, even on that point, is a matter of detail. Had there existed no further difference between us and the other members of the Committee, we should have considered it our duty to sign the Report and present a brief memorandum embodying our views on the points of difference. But we feel that the Report as finally adjusted contains matter which we cannot allow to be issued as the result of our considered judgment, and we are therefore to our regret precluded from adopting this course. The Report contains much material beyond the strictly limited terms of the remit made to us by His Majesty's Government. It embraces expressions of opinion on disputable points and speculations as to the future action of the Government, of local authorities, and of bodies of electors. On these matters we offer no opinion; we are content to observe that in our view they are irrelevant to the inquiry on which we have been engaged, and, therefore, ought not to be included in the findings of the Committee.

We have endeavoured in the Report which follows to restrict ourselves to the matters referred to us, and to express the opinions we have arrived at thereon as briefly and succinctly as possible.

1. The terms of the remit are as printed.

2. We are of the opinion that control of the Liquor interests during an indefinite period with purchase in prospect at a later date is not expedient nor in accordance with sound business principles. Difficulties of many sorts would arise during the interregnum and lead to large claims on the State. If there is to be State purchase at all it should precede or accompany control, not follow it.

3. The terms of purchase should, in our opinion, be based in each case upon profits arrived at by the application of the same rules to each branch of the trade required. The profit is what the seller gets with, and it should form the basis on which compensation is paid; so that if a fair standard of computation of profit be fixed, all that remains to be done is to apply the appropriate number of years' purchase looking to the nature of the assets acquired.

4. A basis is found in the standard profit allowed under the provisions of the Finance Acts with regard to excess profits duty. The principle under which the taxpayer makes up his returns for excess profits duty is well known and in general use. From the profit brought out he is entitled to deduct his standard profit, which, speaking broadly, consists of the average of the best two of the last three pre-war years. We recommend the adoption of this standard in each of the cases after mentioned, subject to such adjustments as are necessary to ensure equality of treatment.

This general rule may require qualification—where, for example, an old business has been added to or a new business has been set up, or where the business has been closed in whole or in part during the standard period, or where there has been capital expenditure after the close of the standard period: these points will be dealt with later.

### PROCEDURE.

5. Before going on to deal with trades individually, it may be convenient to suggest what the procedure might be. There is in existence a Liquor Control Board which has done valuable work in certain areas in Scotland in regulating, after purchase, the liquor traffic in these areas. We suggest that a new Board of Purchase and Control be set up with wider powers than those of the existing Board, enabling it to adopt all necessary means for carrying through the task of purchase, including full powers of examination into books and statements, and the employment of valuers where negotiations fail to result in agreement.

Each case, in our opinion, must form the subject of separate investigation by the Board, and the Board would have power to arrange the purchase price within the limits hereinafter indicated. Failing agreement, and in the event of the seller failing to justify before the valuer as arbiter his refusal of an offer by the Board, the expenses of the arbitration proceedings would be borne by him.

6. We do not think it necessary to set out the licensing law in Scotland; it may be sufficient to note the following points with regard to the retail trade:—

- (1) The licence is personal to the licensee;
- (2) Each certificate is granted for one year;
- (3) It is subject to increasingly drastic regulations enforced by the public authority; and
- (4) The Temperance (Scotland) Act of 1913, which comes into operation in 1920, gives to the electors in prescribed areas control over the grant and renewal of certificates.

Our points we understand that Scottish law differs from English law.

7. The different interests concerned are dealt with under the following heads:—

- (A) Public-houses and inns or hotels whose essential business is a public-house business.
- (B) Licensed grocers.
- (C) Hotels proper, with which may be classed restaurants, theatres, etc.
- (D) Wine merchants, bottlers, etc.
- (E) Brewers and distillers.
- (F) Blenders.
- (G) Allied trades.
- (H) Compensation :
  - (a) Property owners ;
  - (b) Employees.

Finally, an estimate of the total cost is given.

#### A. PUBLIC-HOUSES.

8. Licences are held by 5024 public-houses, and 1533 inns and hotels of which the greater number could not exist without their public-house trade. In Scotland tied-houses are practically unknown. Cases do exist where a brewer or distiller, or both, have made loans to a publican or hotel-keeper in order to get his trade in beer and whisky, but there is no real tie. The borrower is free, on paying off the debt, to make his purchases where he desires.

9. As mentioned, the licence is personal to the licensee. It is a grant for one year and no longer. This is used as an argument against compensation for loss of the licence. Now, it is asked, can there be goodwill when the licence may not be renewed at next Licensing Court ?

On the other hand, it is undoubted that these licences, limited as they are, have a market value. This value has been recognised, not only by the Law Courts in finding the amount payable for the goodwill of a licensed business, but also by the State in the assessment of death duty. Goodwill is the principal element in the price of the transfer of a licensed business, and forms a substantial part of a deceased publican's estate, on which death duties are charged. Further, the licence has been an element in fixing the annual value of property for taxation.

10. We are clearly of opinion that if the goodwill of a business is a subject for taxation by the State, it is reasonable that the State should pay for acquiring it.

11. We are satisfied, from the evidence led, that although the number of public-houses, in relation to the population served, has been reduced, there has been a general decrease in the value of goodwill of licensed businesses for many years. Evidence was received that this decline has been going on for years past, and that the passing of the Temperance (Scotland) Act of 1913 has accelerated it. Those in the trade, though they made light of the risks involved, are widely insured against the risks, and the same feeling of uncertainty which led to insuring has naturally lowered prices.

12. Evidence was received not only that the Licensing Courts favour the reduction of licences, but also that there is a change in the habits of the people which tends in the same direction.

13. Having considered the evidence on the subject of the reduction in number of licensed houses and as to the values put on goodwill of licensed businesses for death duties, and also the circumstances attending the purchases by the Liquor Control Board, we are of opinion that the value of the goodwill of the public-house businesses in Scotland may be taken at three and one-half years' purchase of the standard profit. In order to provide for exceptional cases the Board should be authorised to vary the number of years' purchase between a maximum of four years' and a minimum of two years'.

14. The State, in addition to the price, should pay for tenants' fixtures and movable fittings and utensils and for stocks, all as valued, and should relieve the seller of current contracts, including his obligations under lease, entered into *bona fide* before the issue of this Report.

#### B. LICENSED GROCERS.

15. In this trade the steady decrease is quite as noticeable as in the case of the publican, and we suggest that the same principles be applied. It is impossible, however, from the return for excess profits duty, to separate the profit for the liquor branch of the grocer's business from the rest of his earnings. An overhead estimate must therefore be made ; and we think that the profit accruing from this part of the grocer's trade may be set down as two-thirds of the total. Fair compensation, in our view, for the loss of their liquor trade by grocers may be estimated at two years' purchase of two-thirds of their standard profit, with a maximum of three years' and a minimum of one year's purchase. Fixtures, fittings, etc., of the licensed business should be dealt with as in the case of publicans.

#### C. HOTELS.

16. As already mentioned, the number of inn and hotel licences is 1533, many of them held for houses all over the country which do little else than a public-house trade. Where the inn or hotel is essentially a public-house, it falls into and should be dealt with in the category of public-houses, but in hotels proper the supply of liquor is only incidental to the business ; the main trade is to supply board and lodging to people who are from home. The profits from the two classes of business, the one the lodging and feeding of guests, the other supplying them with liquor, cannot be separated, and any estimate of the cost of compensation is difficult to make. We have no reliable data, but the amount involved is not relatively large. It is provided for in the total after mentioned.

## RESTAURANTS, THEATRES, ETC.

17. Here, again, the supply of liquor is only incidental, and it is difficult to separate the profit upon liquor from that derived from provisions.

18. In these cases, as in the case of the licensed grocer, we have no reliable data to enable us to distinguish the profit from the trade done in liquor from the general profit, but this can doubtless be done by the Purchase Board in individual cases. We estimate the compensation at three and one-half years' purchase of two-thirds of the standard profit, with a maximum of five years' and a minimum of two years'.

19. It is perhaps right to observe that we have dealt only with the acquisition of the Egnor dealing part of the businesses of licensed grocers, hotels and restaurants, and the proper compensation therefor. We have no observation to make as to the procedure after purchase, which is a matter not for us but for His Majesty's Government.

20. No evidence was adduced relative to clubs, and therefore we do not consider that any claim which they might have can be dealt with satisfactorily in this Report.

## D. WINE MERCHANTS, BOTTLEERS, ETC.

21. In so far as wine merchants are also blenders, we think that they should come under the scheme and rates which are applied to the case of blenders as after mentioned.

22. The interests of wine merchants who are not blenders, of bottleers who buy beer in bulk and bottle it on maturity, and of those who hold certificates in regard to sweets, etc., are not relatively large, and are included in the amount afterwards to be stated.

## MANUFACTURING TRADES.

23. These trades fall practically into three classes—first, the brewing trade; second, the trade of distillers and rectifiers; third, the trade of blenders. It may be noted that the whisky blender is in effect a manufacturer. He buys single whiskies from the distiller, blends them according to the taste of his market, and advertises and sells the blend under distinctive trade marks and labels. These three trades will be considered in their order.

24. A distinction falls to be noted between the brewing and distilling trades on the one hand, and the blending trade on the other. In the former case the traders own ground and buildings, machinery and plant, water rights, and other fixed assets which have cost large sums. In the latter case, that of the blenders, the cost of the fixed assets is relatively small.

25. As regards movables, the contrast is equally marked in the other direction. The amount of stock held by brewers and distillers is comparatively small, but in the blenders' case, especially since the Immature Spirits (Restriction) Act, 1915, compelled the retention of spirits in bond for three years after distillation, the stock of whiskies, single and blended, is extremely large. It is proposed to deal first with brewers and distillers, and afterwards with blenders.

It should perhaps be noted that distillers carry on as part of their manufacturing business a very considerable trade in the making and distribution of yeast, and to a less extent of malt extract and methylated spirit. Evidence was given to the Committee that about one-half of the distillers' yeast used in the United Kingdom is produced by the Scottish patent-still distillers. The yeast business is so closely connected with that of the manufacture of spirits as to be inseparable from it.

## E. BREWERS AND DISTILLERS.

26. Three schemes have been suggested for the valuation of the brewing and distilling trades—first, that the fixed assets be separately valued, that stock be taken, and that to the aggregate of these two sums a certain number of years' purchase of the profits be added for goodwill; second, that a number of years' purchase of the profits be fixed as fair compensation for the whole asset acquired, namely, buildings, goodwill, and stocks; and third, that a number of years' profits be taken as the value of the fixed assets and goodwill, and that stocks be separately valued. It is this last method which we recommend.

27. In our opinion the price to be paid for the brewing and distilling trades should be based on—

- (a) For lands and heritages, movable plant, tools and utensils, water rights, trade marks and goodwill, eight years' purchase of the standard profit, with a maximum of ten years' and a minimum of six years',  
plus (b) The value of the stocks as valued for the Purchase Board, material, raw or in process, being valued at cost, and the finished product on the lines recommended below in the case of blenders.

28. Two points in connection with these trades are—first, the position of concerns which own other assets not directly required for the purpose of the business, say, surplus lands and houses; and second, the position of the Government with regard to export business carried on by these manufacturers.

29. On the first point it seems clear that no heritage should be considered as included in the price unless its use has entered into the profits of the manufacturing trade acquired, and that all the heritage which has helped to earn the profit on which the price is based should be included. Inquiry into each case would be necessary to show what was to be taken as covered and what was not. Certain brewers and distillers are the owners of property, such as workmen's houses and warehouses, which are not necessary adjuncts to the process of manufacture. We think, in order to equalise matters between those who own such property and those who do not, that the owner should be paid a fair price for such property, say seventeen and one-half years' purchase of the assessed rental, which, in this case, should

be an economic rental. The number of years' purchase of the profits of the manufacturing business is not to be held to cover this property, which does not belong to that business.

30. On the second point, as to the export trade, it was made clear to us that it could not be carried on without the home trade, and it seems to us necessary, that being the case, that the Government should pay compensation. What is to be done with the export business after purchase is a question of policy.

#### F. BLENDERS.

31. Blenders are the owners of the greater part of the large stocks of whisky in bond estimated at about 97,000,000 gallons. That whisky has advanced from an average pre-war price of about 3s. 9d. per gallon to prices which are quite abnormal and still rising. It is clear that purchase at anything like the present market value would involve enormous figures.

32. This one element in the problem of suggesting the financial terms on which the Liquor interests of the country may be purchased by the State presents the greatest difficulty of all those involved in the remit. If the advance in price was due purely to market conditions, and the operation of supply and demand in normal times, there might be considerable justification for an argument that the seller should receive the market value for his stock. Prior to the War, except as regards the export trade, the outlook for blenders was by no means bright. As has been stated above, there had been, for many years, steady and progressive decline in the number of licensed premises, which are the staple customers of the home trade. The stock of manufactured whisky represented three or four years' supply, and in the event of any considerable adoption of the No-licence resolution under the Temperance (Scotland) Act, 1913, the holding of these stocks was not unattended by risks. The War has changed all that. Distilleries, except a few pot-still distilleries, are no longer employed in the manufacture of whisky. The Immature Spirits Restriction Act of 1915 prevents the sale of whisky under three years old. The excess profits duty provisions of the Finance Act tend towards the holding back of whisky from sale till the duty is taken off, and, lastly, the talk of State purchase has not been without effect in raising prices.

33. If there is a clear case of enhanced value due to War conditions, it is this; and if the Government, under these conditions, feel constrained to fix maximum prices for many kinds of food, there can be no grievance if they apply the same rule to the Liquor trade. The present inflated values are largely due to Government action, and Government action might as easily deflate them.

34. With all these circumstances in mind, we have carefully considered the basis of price to be paid for these stocks, and are clearly of opinion that values arrived at under present conditions do not give any fair basis of price for acquisition by the State.

35. It has been suggested that the objections to acquiring the stocks at present values may be overcome by fixing on the market price but making the profit on sale subject to the provisions of the Finance Act with regard to excess profits duty. It may be as well to explain what these are. Under the operation of the Finance Act, as already stated, a trader is allowed as a standard profit the average of the best two of the last three pre-war years. Further, in the preparation of accounts for excess profits duty he is entitled in his return to oblige to the account—

- (a) The stock on hand at the opening of the account at cost or market value, whichever ever is the lower;
- (b) The cost of his purchases; and
- (c) The working expenses and other necessary charges.

On the other side of the account he credits the sales and the value as above of any stock on hand at the close. From the difference between the two sides of the account, being the profit, he is entitled, before striking the sum upon which excess profits duty is paid, to deduct the standard profit and to retain 20 per cent. of the balance.

36. There are here two elements of difficulty in estimating what the profits of the blenders on a sale of their stocks would be. First, no information is available as to the average cost of the single whiskies bought and used by the blenders. The cost may vary between very wide limits. Second, the market value, or whatever the purchase price may be, is equally undetermined.

37. Another method of arriving at a fair sum which has occurred to us is that the Purchase Board should endeavour to come to an arrangement with the Trade, and, failing agreement, that the question of price should be arranged on the basis of *bona fide* cost plus a sum (to be fixed by arbitration) based on the average profit per gallon obtained from stock sold during the standard period, but with a wide margin to ensure that in each case similar prices are paid for similar goods.

This would not be practicable: the variations in first cost, to take one element alone, are too great. 38. A third suggestion is that an overhead figure per gallon be fixed more or less arbitrarily as a maximum price. There are, of course, numerous precedents for this under War conditions, but the impossibility of arriving at a fair figure leads us to discard the suggestion.

39. After the best thought that we can give to the question, our judgment is that the first named—the application of the principle of the excess profits duty—will work out more equitably than any other method, and in our opinion this principle should be adopted, the purchase price of each class of whisky being fixed at the average price realised for whisky of similar age, quality, and strength during the last six months of 1915.

40. We are quite alive to the fact that under any method it is difficult, if not impossible, to estimate the cost to the State of this, the largest individual item which State purchase would involve, and that any fair basis of price adopted may make State purchase financially prohibitive, having regard to the fact that large stocks would be held at artificial prices, with no certainty that they could subsequently be sold at anything approaching the same level.

41. It ought to be noticed that in some instances distillers have also a considerable blending business, the separate profits of which cannot be ascertained from the Income-tax returns. It is only with the assistance of leading representatives of the trade that figures have been got which show the total profit

derived from each branch, so that the different rates of multiplier can be applied. Similarly, but on a much smaller scale, blenders carry on the business of distillers. It has been possible by elimination to arrive approximately at the profits of the blending business separately.

42. As regards goodwill, on the footing that the stocks are acquired on a basis from which this element is entirely eliminated, we are of opinion that four years' purchase of the profits would be fair.

43. In this case also, as in the case of distillers, it seems right that those who own property not directly required in the business should receive payment for it beyond the value of their business. In our opinion they should be paid for their property on the basis of seventeen and one-half years' purchase of the assessed rental, which in this case also should be an economic rent.

44. In the case of retail traders the Act of 1913 may be considered as a warning of possible expropriation, and may reasonably be held to affect the value of their trade, but in the case of manufacturers this element does not apply to the same extent, and we are of opinion that when the State deprives a person of his business at a time which suits the State—without reference to the convenience or pecuniary interests of the person dispossessed—it is not unreasonable that a percentage over and above the bare market value should be allowed. In the present case, however, we consider that the provisions for compensation recommended in our Report are sufficient to provide for this.

It is to be noted that under the scheme outlined above, each manufacturer will be left in possession of the remaining assets of his business, such as debtors, investments, and cash.

## EXPORT TRADE OF BREWERS, DISTILLERS, AND BLENDERS.

45. As to the use that the Government might make of the foreign trade we offer no opinion, but we mention the suggestion made by a witness that the export business might be resold to a Company or Companies who will get their supplies from the Government and export them to their foreign customers.

## G. ALLIED TRADES.

46. We are of opinion that no case has been made out at this stage for the purchase of trades which are subsidiary to, or allied with, those above mentioned. It is not certain that purchase by the Government means the closing down of these trades, nor that if and when they are closed down the Government will not deal with them equitably.

## H. COMPENSATION.

47. Claims under this head may fall into two categories—(a) by owners of heritable licensed property for compensation for loss of the licence, and (b) by employees for loss of their employment. We are of opinion that under neither head can claims arise at this stage. Such claims, if they arise at all, will arise under the administration of the Board which the Government may set up, and should be dealt with out of the profits of working.

## CASES OF HARDSHIP.

48. It may be that under the scheme outlined above there are cases of genuine hardship which are not provided for. There may, for example, be cases where trades were closed during the three years prior to the War; or again, the nature of the trade carried on may have materially changed; or a new trade may have sprung up; or again, the loss of the licensed part of a business may make the rest of the trade valueless. All these cases require separate consideration. It should be a direction to the Purchase Board to deal with such cases, but only on claims made by persons who allege hardship. Should any claim fail, we think that the Board should have the power to find the claimant liable in expenses.

## ESTIMATED COST.

49. Taking the whole trade, manufacturing and distributing, wholesale and retail, we estimate, on the basis above set forth, and on the figures supplied to us, that the total cost, exclusive of stocks and surplus heritage as above mentioned, may amount to £24,000,000.

50. We think it proper to point out that, in the event of purchase by the State, the revenue drawn from excise and licence duties will cease. This consideration does not affect the price, which is arrived at on the basis of profits from which these duties have been deducted; but, as these sources of revenue will disappear, their loss will require to be provided for in the annual Budget estimate after purchase.

51. We desire to express our deep obligation to Mr Blair, Chief Government Valuer for Scotland to the Board of Inland Revenue; to Mr Stamp, Assistant Secretary of the Board of Inland Revenue; and to Mr D. N. Cotton, C.A., Edinburgh, for their help in the inquiry; and we heartily concur with the other members of Committee in expressing our admiration of the zeal and talent of the Secretary to the Committee, Mr Norman Macpherson. His services have been invaluable.

We have the honour to be, Sir,

Your obedient Servants,

CHARLES KER.  
JOHN M. MACLEOD.

GLASGOW, 26th December 1917.

## IV.—IRELAND.

## ABSTRACT OF REPORT.

The Report of the Irish Committee is, like the others, based on a thorough examination of the available evidence; in its arrangement and general survey of the problems it so closely resembles that of the English Committee that it is unnecessary to do more than recapitulate the general formulae for purchase which it recommends. The formulae suggested are not intended to cover the value of stocks of liquor, which are to be taken at current market value, subject to the deduction for Excess Profits Duty recommended by the Scottish Committee. Para. 26.

The formulae suggested are as follows:—

(a.) Breweries.—13 years' purchase of net profit over the 5 years before the war. This excludes the value of the 400 tied houses in Ireland, which are to be separately valued. Para. 31-37.

(b.) Distilleries.—12 years' purchase of net pre-war profit. Para. 17-30.

(c.) Wholesale dealers.—The Committee believe that ultimately the interposition of the dealer as middleman between the manufacturer and the retailer could be done away with, and that, if the manufacturing and retail interests are acquired by the State, the interests of the dealers should in justice to them be acquired also. While therefore the businesses of dealers, or some of them, might advantageously be continued on agency terms during the early days of State management, arrangements for purchase of the dealers' businesses should be made in all cases. The terms recommended are the same as for the Irish off-licence holders, namely, 5 years' purchase of pre-war net profit. Para. 39-40.

(d.) Retail on-licensed premises.—Except by mutual agreement between the owner and the State, the fee simple of the premises is to be acquired, on the basis of a certain number of years' purchase of the true net annual value. In addition, the trading occupier is to receive the value of his chattel interest, plus a number of years' purchase, tentatively suggested at seven, of his pre-war net profit in respect of goodwill. Para. 49.

(e.) Retail off-licences.—The same terms are recommended as for retail on-licences, except that the number of years' purchase of net profit in respect of the trading occupier's goodwill is suggested at five instead of seven. Para. 51.

Hotels, restaurants, railway refreshment rooms, passenger vessel licences, clubs, and "allied trades" are excluded from purchase. But the exclusion of malsters is subject to the reservation that, while it would be desirable and probably feasible to come to some arrangement with them whereby they could continue their business for the State without being purchased, it would be a matter of equity to purchase them in default of such an arrangement. Para. 52-58.

The Committee append to their report (p. 19) a unanimous suggestion that, in default of purchase of the Irish trade, a scheme should be undertaken for the reduction of Irish licences by at least one-half, with compensation for those suppressed, the money being raised entirely or largely by a special levy on the Irish trade.





LIQUOR TRADE FINANCE COMMITTEE (IRELAND), 1917.

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# REPORT

OF

## THE DEPARTMENTAL COMMITTEE

APPOINTED TO ENQUIRE

UPON WHAT TERMS THE INTERESTS IN IRELAND CONCERNED  
IN THE MANUFACTURE AND SUPPLY OF INTOXICATING  
LIQUORS SHOULD BE ACQUIRED BY THE STATE,

AND AS TO THE

FINANCIAL ARRANGEMENTS WHICH SHOULD BE MADE DURING  
THE PERIOD OF CONTROL OF THOSE INDUSTRIES  
BY THE STATE.

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## WARRANT OF APPOINTMENT.

His Majesty's Government being of opinion that it may shortly be necessary as an urgent War measure to assume control of the manufacture and supply of intoxicating liquors during the War and the period of demobilisation, and that such control, would involve the purchase after the War of the interests concerned in such manufacture and supply, I HEREBY APPOINT:—

The Rt. Hon. Mr. Justice Gordon (Chairman).  
 Mr. H. D. M. Barton.  
 Mr. Michael A. Ennis, J.P.  
 Sir Stanley Harrington, J.P.  
 Mr. Thomas O'Donnell, M.P.  
 The Rt. Hon. Robert Thompson, M.P., D.L.; and  
 The Rt. Hon. Lawrence A. Waldron:

to be a Committee for Ireland to inquire into and to report upon the terms upon which those interests should be acquired and the financial arrangements which should be made for the period of control.

H. E. DUKE.

*Irish Office, June 29, 1917.*

## ADDITIONAL WARRANT.

WHEREAS I have appointed by Warrant under my hand dated the 29th June, 1917, a Committee for Ireland to inquire into and report upon the terms upon which the interests concerned in the manufacture and supply of intoxicating liquors during the War and period of demobilisation should be acquired and the financial arrangements which should be made for the period of control.

NOW I HEREBY APPOINT Mr. M. F. Headlam to be an Additional Member of the said Committee.  
 I FURTHER APPOINT Mr. W. T. Sheridan to be Secretary to the Committee.

H. E. DUKE.

*Irish Office, July 25, 1917.*

## ADDITIONAL WARRANT.

WHEREAS by the resignation of the Rt. Hon. Lawrence A. Waldron a vacancy has been caused in the Committee for Ireland appointed by Warrant under my hand dated the 29th June, 1917, to inquire into and report upon the terms upon which the interests concerned in the manufacture and supply of intoxicating liquors during the War and period of demobilisation should be acquired and the financial arrangements which should be made for the period of control.

NOW I HEREBY APPOINT Sir Maurice F. Dockrell, D.L., J.P., to be one of the Committee for the purposes aforesaid in the room of the said Rt. Hon. Lawrence A. Waldron resigned.

H. E. DUKE.

*Irish Office, August 21, 1917.*

## REPORT

TO

THE RT. HON. HENRY EDWARD DUKE, K.C., M.P.,  
CHIEF SECRETARY FOR IRELAND.

## INTRODUCTION.

1. The Liquor Trade Finance Committee (Ireland), 1917, was appointed by Warrant dated the 28th June, 1917, to inquire into and report upon the terms upon which the interests concerned in the manufacture and supply of intoxicating liquors in Ireland should be acquired and the financial arrangements which should be made during the period of control prior to the acquisition of such interests by the State, upon the assumption that the Government may be compelled as an urgent War measure to assume control of the manufacture and supply of intoxicating liquors during the War and the period of demobilisation, to be followed as a matter of necessity by purchase, after the war, of the interests involved.

2. Having regard to the objects and nature of the control the assumption of which, as an urgent War measure, was anticipated by His Majesty's Government, we have been able to consider what interests, if any, of the Liquor Trade might be excluded from any scheme of purchase, without interfering with the objects which His Majesty's Government has in view.

3. We have not concerned ourselves with either the general or financial policy involved in the purchase of the Liquor Trade as these questions were not referred to us.

4. Certain documentary and statistical material has been furnished to us by the Commissioners of Customs and Excise and by the Board of Inland Revenue, the Commissioner of Valuation and the Statistical Section of the Department of Agriculture and Technical Instruction for Ireland, and we have also obtained published matter bearing directly upon the Liquor Trade in Ireland.

5. We gave every interest likely to be affected an opportunity of bringing before us its special circumstances, and point of view, and this opportunity was availed of by them all. The Committee sat on twenty-three days and examined sixty-four witnesses whose evidence was recorded, and, in addition, we received a considerable number of written memoranda.

6. Most of the witnesses examined were delegated by Organised Associations representing different branches of the Liquor Trade, and, either through these Associations or by individual evidence was given on behalf of every interest concerned.

7. The witnesses representing the Publicans' Trade Associations in Dublin, Belfast, Cork, Limerick and other places, who attended to give evidence, were unanimous in stating that the number of licensed public houses in Ireland was excessive, and that a large percentage of them might be abolished with advantage to the public. They stated the willingness of the Trade to pay contributions to provide a fund for compensating the owners of such licences as might be abolished.

8. We found a reluctance on the part of the representatives of the Distillers' and of some of the Brewers' Associations to give us information as to their profits. Consequently we have experienced considerable difficulty in dealing with the question of the compensation to be paid for the acquisition of the interests in these branches of the Trade and in estimating the probable cost of their acquisition.

Our difficulty was increased by the fact that there is not in Ireland any body of skilled Valuers, such as exists in England, having experience in the valuations of Breweries and Distilleries, from whom evidence could be obtained.

## GENERAL.

9. There are certain matters in which the position in Ireland differs from that existing in England. In the first place, the Poor Law Valuation in Ireland is not kept up to date in the same way as it is in England. The valuation of all lands tenements and hereditaments is made by or under the direction of one central authority, the Commissioner of Valuation. A general valuation of all the lands tenements and hereditaments in Ireland was made between the years 1852 and 1864, and since that was completed there has been no general re-valuation in Ireland, except in the cities of Belfast and Dublin. The re-valuation of the former was completed in the year 1906 and that of the latter in the year 1915. There is an annual revision of valuation, but in practice only cases of new buildings, or where there have been additions to or external structural alterations of old buildings, are dealt with on this revision and then only in such cases as are officially brought under the notice of the Commissioner. In no case, except in Belfast and Dublin, has the additional value due to the premises being licensed been taken into account in the Poor Law Valuation. All local rates and public taxes and the Excise Licence Duties are assessed upon the basis of the Poor Law Valuation. But for the reasons mentioned, we consider that valuation would not be a satisfactory basis of the present annual value of the premises dealt with in this Report.

10. Valuations have been made in pursuance of and for the purposes of the Finance (1909-10) Act, 1910. But they have not been made to such an extent or upon such a basis as would, in our

opinion, justify us in recommending them as a satisfactory or reasonably simple means of ascertaining the values to be applied to the interests dealt with.

11. Another point of difference is that there are comparatively few tied houses in Ireland; only about 400 in all, and these are attached to two breweries in Cork. There may be a few others attached to another brewery, but our information on the point is not very clear. The tie is less stringent than that existing in England.

12. It is also to be borne in mind that the Licensing Laws so far as they affect the publicans in Ireland are not, in some material respects, the same as in England or in Scotland, as is explained later.

13. It should also be noted, as marking the difference of the problem:—

- (1.) That the average gravity of the beer manufactured in Ireland is much higher than the average gravity of the beer manufactured in Great Britain.
- (2.) That one great brewery produces by far the largest output and outranks the other breweries as no brewery does in England.
- (3.) That in the country districts, though not to the same extent in some of the towns, the publican almost invariably carries on a grocery or general supply business, as well as his liquor trade.

14. It is not easy to ascertain accurately the average consumption of drink in Ireland. But from the reports of the Commissioners of Customs and Excise and other information before us we think the average annual consumption for the four years prior to the war was about 3,175,000 gallons of proof spirits, British and Foreign, about 2,800,000 hulk barrels of all kinds of beer, ale, stout, porter, &c. (of which about 2,625,000 hulk barrels of 32 gallons each were Irish manufacture and about 175,000 hulk barrels of 36 gallons each were imported), and something under 1,100,000 gallons of wines of all kinds. We have not included 1910, as apparently, the quantity of spirits retained for consumption in that year was considerably below the average for either the immediately preceding or for the succeeding years. There was also exported from Ireland a large quantity of spirits and beer manufactured in the country.

15. Most of the witnesses examined were of opinion that the basis of purchase, so far as it might depend upon net profits, should be taken on a fixed period prior to the War—some suggested three years, some five years, and others a longer period. We are of opinion that in the case of Distillers, Brewers, and Dealers, five years prior to the War would be a reasonable period, but, in the case of publicans and other interests, three years might be considered sufficient, owing to the difficulty of obtaining the necessary particulars and accounts of their trading.

16. In dealing with quantities, prices, and profits we do not say that our figures are absolutely accurate, but they are as nearly right as we could make them with the information at our disposal.

## DISTILLERS.

17. According to the returns furnished to us, there were in Ireland on the 31st March, 1917, twenty-seven Distilleries paying a net Excise License Duty of £4,800 per annum. The majority of the concerns produce Pot Still spirits only, but taking them all together the patent still production is the larger of the two, and is now reserved for Government purposes. The Distilleries are owned by twenty-one or twenty-two separate companies, firms, or individuals. Some of these are limited companies, some are partnerships, and some are owned by individuals. Of the limited companies, only two or three are in the ordinary sense public companies having their shares quoted on the Stock Exchange. The others are private limited companies, some having the transfer of their shares restricted by their Articles of Association. The shares of these companies were, therefore, not quoted on the Stock Exchange; and their balance sheets filed with the Registrar of Joint Stock Companies afforded little or no information or assistance in our inquiry. Of course, we had no means of ascertaining the amount of capital employed in their business by private owners, or the amount of profit they made, or how their business was conducted unless such information had been furnished voluntarily. Two of the witnesses representing the Distillers, themselves amongst the largest in the trade, told us they had endeavoured to ascertain the aggregate capital employed but had been unable to do so.

We were able to ascertain fairly accurately that the average output of all these distilleries was for the five years, 1910-1914, inclusive, about 10,000,000 proof gallons a year, and for the five years, 1905-1909, inclusive, about 11,800,000 proof gallons a year. The reduced output for the years 1910-1914 period was attributed by the witnesses to the Finance (1909-10) Act, 1910, the effect of which was, they alleged, disappearing before the war began. The official returns do not indicate that the recovery was a very rapid one.

18. We had no satisfactory evidence before us as to either Gross or Net Profits of the Distillers. Their aggregate Assessment for Income Tax for the year 1911-12 amounted to £275,868.

19. So far as we could ascertain, the Distillers do not own any lands or buildings outside the United Kingdom. In Ireland, in addition to their manufacturing concerns, they own or rent stores, offices and malt houses in various places, the aggregate annual Poor Law Valuation of all lands and buildings held by them being £30,582.

20. The stocks of home-made spirits remaining in Bond in Ireland are always very considerable, and a large proportion is allowed to mature to from five to seven years, and in some cases longer. On the 31st March, 1914, there were in Bond in Ireland nearly 27,000,000 gallons, and there is about the same quantity at present. Of this, it was stated, that the Distillers owned one-half, perhaps more; and in addition to this, they had their stocks of raw material which vary from time to time, but

which, on the average, must be of considerable value. Their machinery and manufacturing plant is also valuable. Some of the companies have reserve funds.

21. The Distillers strongly objected to any compulsory purchase of their property, and their contention was that if purchase was to be carried out, it should be on a cash or its equivalent basis, that purchase and control should take place simultaneously, and that the proper and fair method of ascertaining the price would be by a valuation of their tangible assets, a certain number of years of their net profits to be added for goodwill, compulsory purchase, and the fact that they could no longer carry on their business in any part of the United Kingdom. They also asked that their employees should receive reasonable compensation. They considered Stock Exchange prices would be a fallacious basis, and that giving a certain number of years' purchase of net profits for everything would work out unfairly, as it might result in giving one too much and another a great deal too little. Some of them also stated that there were expert valuers in England whose valuations they would be prepared to accept.

22. Stock Exchange Quotations, Separate Detailed Valuations, and Income Tax Assessments has been suggested as bases for acquiring the interests in the Liquor Trade. We have carefully considered each of these methods and give our reasons for their rejection.

We consider that prices based on Stock Exchange Quotations would be inappropriate and unfair. In any case, Stock Exchange Quotations are not a very certain means of arriving at the true value of a concern. The affairs of a company may be so presented on a Balance Sheet as to make it more attractive to an investor than its true position really warrants. Premises may not be kept in repair. Insufficient allowances may be made for depreciation. The entire available profits may be distributed in dividends without creating a reserve fund to give stability to the concern. Whereas another company, whose property and business is in reality of much greater value, may expend sufficient of its earnings on renewals and repairs, make due provision for depreciation, and, instead of dividing all its profits amongst its shareholders, create a reserve fund which would put the company on a sounder and more secure foundation, but may not thereby enhance the price at which its shares are quoted, as what the purchaser in most cases looks to, is a large return for his money. But, even apart from this, in the case of the Irish Distillers, there is not a sufficiently large proportion of companies having shares freely bought and sold on the Stock Exchange to form a reliable basis upon which to ascertain anything like the real value of the property to be dealt with.

23. The valuation in detail of all the tangible property in each case and then adding a certain number of years of the net profits for goodwill, compulsory purchase and the resultant inability to carry on the same trade in the United Kingdom, although, perhaps, the most accurate way of arriving at the price, would take too much time, involve too much expense, and require too many expert valuers on each side, to make it a method which we would recommend. Leaving the price to an expert, as was suggested, might lead to a deadlock, if the parties could not agree upon the expert to be appointed.

24. The suggestion that Income Tax Assessments might be taken as showing the net profits would not, in our opinion, be satisfactory. The basis upon which the assessment is made and the methods by which it is arrived at would prevent its being safely used as showing net commercial profits, unless there was also an examination of the returns made by the parties assessed and a full consideration of the methods adopted. Besides, except by agreement or legislative enactment, these assessments and returns could not be made available. No doubt, if available, they might afford considerable assistance in arriving at the true net profits.

25. We are of opinion that the purchase should be upon the basis of acquiring the freehold, free from incumbrances, of all lands and buildings used by the owners for the purposes of their business and all other property used in or directly connected with their business, also free from all charges.

26. We think the best course would be to adopt the principle of first ascertaining, as accurately as possible, the average net annual profits of each concern for the five years prior to the war. In doing this due allowance should be made for Income Tax and interest on mortgages, loans and debentures. Interest should be charged upon the amount of working capital necessary to carry on the business, and a proper amount for depreciation, &c., deducted. Of the net average income, when ascertained, a certain number of years' purchase should be given for the acquisition of the freehold, free from incumbrances of all lands and buildings and for the machinery, plant, fittings and fixtures, goodwill, and every other property and interest used in or necessary for carrying on the business, exclusive of book debts, reserve funds (where separately invested), and the stock manufactured or unmanufactured. The book debts (save by agreement), and the invested reserve funds to remain the property of the owner, and the stock to be taken over by the purchasers at a price to be agreed upon, or failing agreement, to be fixed by the Tribunal hereinafter mentioned. In fixing the price of the stock the question of Excess War Profits should be taken into account. The purchaser should take over all liabilities existing contracts and indemnify the vendors in respect of these.

27. We have excluded the book debts and separately invested reserve funds as the latter are really undivided profits not used in carrying on the business; and the former are not a necessary part of the business when purchased by the State and might not have an uniform relation either to the business or its value. We have dealt with the stock-in-trade separately because the amount and value is so large and varies so much: some of the owners holding a very large stock of manufactured spirit for the purpose of maturing it and keeping up the standard and character of their production, while others hold much smaller quantities, at the same time showing perhaps as large net profits. If, therefore, the purchases were carried out on the basis of including the stock in the assets purchased for a certain number of years of the net profits, serious injustice might be done to the owner of the large stock. The value of these stocks will form a very large portion of the entire property acquired. In 1914 they were probably worth from £2,000,000 to £3,000,000; and, at the present time, their market value would be very much in excess of this.

28. All liabilities of the vendors, including debts due by them, mortgagees, debentures, and other

charges, and the claims of all parties having superior interests in the lands and premises as landlords or otherwise, should be transferred to and payable out of the purchase price. All these liabilities, except ordinary debts, should be ascertained on a pre-war basis.

29. The question of debentures presents some difficulty, and will require careful consideration by the Tribunal which we propose should be appointed. Debentures may be irredeemable, or redeemable upon a defined notice being given by the company; they may be redeemable at par or at a premium, or they may be redeemed at a fixed date. Some may be secured by a Trust Deed and charged upon the whole or a definite portion of the company's property; and some may be merely a floating charge upon the assets of the company. All would become payable on the winding-up of the company, and would be entitled to payment in full so far as the assets would admit. And, if this purchase by the State is to be taken as having the same effect as the winding-up of the company, the debenture holders would in many cases get more, and in some cases less, than their debentures would have realised if sold in the market. This might be unfair to the other parties interested in the assets of the company, and it might also be unfair to give only the pre-war market price to those who had an ample security on specific portions of the company's property and who had no desire to sell. The difficulty might be got over by an enactment that, so far as debentures or debenture stock are concerned, the sale and purchase should not be treated as a winding-up of the company, but the amounts to which the debenture holders should be entitled should, in the event of all parties interested not agreeing, be determined by the Tribunal.

30. We have considered the question of naming a number of years' purchase of the net profits ascertained as already described; and though we have considerable hesitation in doing this, we think that, in the case of a well-managed business, with suitable and convenient premises kept in good order and properly equipped with machinery, plant, and fittings well maintained, and showing steady profits, the number of years' purchase should not exceed twelve. But we do not consider it would be desirable to tie the Tribunal down to any hard and fast limit. In some exceptional cases of special advantages from situation or facilities for manufacture, or continuous and steady increase of profits, or exceptional value of buildings, machinery and plant, perhaps an extra allowance might be made; and in cases where the reverse of these conditions exists, or the profits are steadily diminishing, a considerably less number of years' purchase might be quite sufficient. There may be cases where net profits are comparatively small and the value of the buildings, machinery and plant very large. Cases of this kind would have to be carefully considered by the Tribunal and the number of years' purchase adjusted accordingly.

#### BREWERS.

31. The breweries for sale in Ireland were, on the 31st March, 1917, twenty-six in number, paying £36,528 in Excise License Duty. There are no breweries other than those for sale. These breweries produced in the five years, 1910 to 1914, inclusive, an annual output of something over 3,900,000 standard barrels, which, as the specific gravity is considerably higher than the standard, would be equivalent to about 3,440,000 bulk barrels of 36 gallons each, or nearly 8,870,000 bulk barrels of 32 gallons each, which is the capacity of the barrel used in Ireland. Of the amount produced, nearly 1,300,000 standard or about 1,230,000 bulk barrels of 32 gallons each were exported. The specific gravity of the export is higher than the average. A very large proportion of the entire business is owned by one company.

Their aggregate assessment for Income Tax for the year 1911-12 amounted to £1,324,486.

32. The Brewers do not, at all events to any substantial extent, own any lands or premises outside the United Kingdom. Some of them produce not only what Malt they require, but also produce a quantity for sale; and some produce part of what they require and purchase or get the balance prepared by Malsters on commission. In addition to the beer, there are also bye products of yeast and grains; and some carry on the manufacture of mineral waters. The aggregate annual Poor Law Valuation of all lands and premises belonging to and used by the Brewers in connection with their business in Ireland is £44,787.

33. We had before us a number of witnesses representing the Brewers' Association and also some representing separate breweries. They all put forward views similar to those advanced on behalf of the Distillers.

34. Although in the case of the Brewers, there is not the same system of holding manufactured goods for any lengthened period as exists in the case of the Distillers, their products being disposed of practically as they are produced—and the difference in price between that prior to the war and at the present time is not so great though very considerable, we do not see any ground for recommending a different basis of purchase in their case from that we have recommended in reference to the Distillers, except that we think thirteen years of the net profit should be substituted for the twelve years mentioned in respect of the Distillers, the Brewers' business not being so much affected by legislative change as the Distillers.

35. There are, as has already been mentioned, two breweries in Ireland which have tied houses to the number of about 400 in all. These houses are owned or rented by the Brewers, and are fully licensed premises. The Brewers let them to suitable persons on short terms, which are generally renewed at a rent agreed upon; the only restriction imposed upon the tenant being that he shall take from that Brewer all the beer he sells of the kind the Brewer makes. There is no restriction as to what he gets his spirits or other drinks, and the Brewer does not interfere as to the prices he charges or the conduct of his business, save that if he conducts the house in any way which would endanger the license, or that he otherwise proves unsuitable, the Brewer can get rid of him.

In the case of the breweries that have tied houses, we think the houses themselves should not be included in the property to be acquired for a definite number of years' purchase of the net profits, as doing so would unduly increase the proportion of real property to profits of manufacture; and as

presumably a higher number of years' purchase should be applied to real estate than to business profits, this might unduly complicate matters. The fact that they have these houses as fixed customers may be an added element to the stability of the profits of the Brewers, and this could be taken into account in deciding the number of years' purchase of the net profits to be allowed.

Looking at the question of these "tied houses" with their limitations as described, it appears that they differ little in their essentials from the ordinary "on-licensed public houses" in Ireland, with which we deal hereafter.

We are of the opinion that each of these "tied houses" should be treated as a separate entity, and that the Tribunal dealing with such cases will then be in a position to segregate the several interests therein of the owners of the lands and premises, the Brewers, the licensees, and others affected. The licensees would be entitled to the value of their stock, and any fittings and utensils which are theirs, and to a certain number of years' purchase of their net profits to be determined by the Tribunal, having regard to the length of their unexpired terms, and their prospects of getting a renewal of their term.

36. Malting, whether for the Brewers' own use or for sale, should be treated as part of the business to be acquired, and the premises used for this purpose as part of the brewery premises.

37. Where the Mineral Water manufacture is carried on as a separate business and upon premises separate from the brewery premises it is not necessary that it should be acquired; but the Brewers may have some ground for compensation on account of the additional cost of carrying it on as a separate concern over and above what it costs when managed and conducted along with the brewery business. Where it is carried on on the premises to be acquired by the State it should be treated as part of the entire business, but the Tribunal would take this into account when determining the number of years' purchase.

### RECTIFIERS.

38. There are no Rectifiers properly so-called in Ireland. Twelve licenses were issued to Rectifiers for the year ending 31st March, 1917, but we are informed by the Collector of Customs and Excise that these licenses were issued to Merchants who required them for their business of compounding spirits.

### DEALERS.

39. These include Wholesale Merchants, Bottlers and Blenders. We could not ascertain the exact number, but, so far as we can see, there are about 800, paying an aggregate of £11,000 of Annual License Duty. In order to protect themselves against an infringement of the Law, the Wholesale Merchants take out a Retail as well as a Wholesale License. Something less than one-half of these deal in beer alone, and one firm in Dublin is one of the largest bottlers of beer and stout in the Irish. This particular firm is chiefly concerned in the bottling of beer and stout for export to foreign countries, and it also owns some lands and buildings abroad. So far as this firm is concerned there would be no necessity to purchase it, provided its trade was confined to export to foreign countries, and that the State gave reasonable facilities for carrying on such trade. Other companies and firms do a large business in blending and also in bottling spirits and in purchasing and selling foreign wine. Many of them keep in Bond, or in their own stores, large stocks of spirits and wines; and some of them keep these for a considerable time till they become matured. Several of them have large stores, some have only small premises and yet as Commission Agents and Bottlers make large incomes.

40. They in point of fact act as Middlemen between the Manufacturers and the Retailers as well as supplying some private customers. If the manufacturing and retail interests are acquired by the State, we think the interests of the Dealers should in justice to them be acquired also. Their work of bottling and blending could be done at the place of production, and the profits of the State would be considerably enhanced by the disappearance of the intermediate profit.

If, as is probable, the knowledge and experience of the Dealers are necessary to help the State, at all events in the early days of its monopoly, the businesses, or some of them, could be continued on Agency Terms. Arrangements for purchase should be made in all cases, and we recommend that the same basis and terms should be applied as in the case of the "Off" License Holders.

### FULLY LICENSED PUBLIC HOUSES—"ON" LICENSES.

41. Of these, there were on the 31st March, 1917, 16,396 (including 334 hotels, 16 restaurants, 13 theatres and places of entertainment, and 14 railway refreshment rooms licensed on a different basis from ordinary public houses) paying a net License Duty of £153,043. There are also 293 houses licensed to sell beer, cider and perry for consumption on the premises, paying £289 Excise License Duty. There are 506 licensed public houses in Dublin, 533 in Belfast, 480 in Cork, 344 in Limerick, 196 in Londonderry, and 173 in Waterford, the remainder being in the other towns and scattered over the country in villages and country places. In the cities and larger towns a considerable number of these houses are used only for the sale of drink; but, taking them as a whole, in the large majority of cases other businesses such as grocery, provision, hardware, and drapery are carried on in the same premises and conducted by the same persons as the liquor trade, the entire premises being licensed for the sale of drink. Only a small proportion, and these only in the cities and larger towns, are used solely as business premises, the rule being that the houses are occupied as residences by the owners and their families and employees. Some of them have farms attached, and the business is a considerable proportion is conducted by the owners and their families without the assistance of paid employees.



42. We have already dealt with the system of tied houses. Except in the case of these tied houses, all the public houses are free, and are either owned or held on leases or from year to year by the publicans. In the great majority of cases, even if their interest in the liquor trade is purchased, they would be most unwilling to part with their premises, as they are their residences and homes.

43. There is also, as mentioned in para. 12, a very great difference between the position of the publican in Ireland and the position of the publican in England or in Scotland. There is no legislative provision for extinguishing public house licences in Ireland such as exists in England under the Act of 1904, or for bringing into effect local option as is provided in Scotland by the Act of 1913. In Ireland a publican can only be refused a renewal or transfer of his license on the ground of unsuitability of the premises or unsuitability of the applicant. Both of these objections can be and are got over either by putting the premises into proper condition or by transferring the license to a person who cannot be alleged to be unfit. Further, the Irish Act of 1902 prohibits the granting of new licenses, so that the publican in Ireland is in a much more secure position than the publican in either England or Scotland. Of course, if he does lose his license, there is no fund out of which he can be compensated.

44. In Dublin and Belfast, owing to their recent re-valuation, in which the additional value due to the license is included, the licensed duty is assessed on one-half the Poor Law Valuation. Outside these cities, for the purpose of assessing license duty, 30 per cent. is added to the Poor Law Valuation in cases where it does not exceed £50, and 5 per cent. in cases above that amount. In no case is the License Duty less than £5.

45. The Poor Law Valuation of the large majority of the public houses in the smaller towns and villages and country places and even to some extent in the cities is not very high. It has been difficult to obtain figures; but making the best calculation we could from the number of public houses (not including hotels, etc.) and the total amount of duty paid, the annual Poor Law Valuation would average about £18 a house, and this would, in nearly every case, include the entire premises, no matter what additional business was carried on in them.

46. A comparatively small number of publicans keep any accounts, and, in most cases, their receipts for purchases are destroyed after a year or two, so that there would be great difficulty in ascertaining their net profits from their books or accounts, and, in cases of mixed businesses, in segregating the liquor profits from the general profits of their trade. They are all obliged to keep a Spirit Book which would show the amount of Spirits they have purchased; and it might be possible to ascertain from the receipts which they may have kept and from the Brewers with whom they dealt the amount of beer, stout and porter which they purchased annually.

47. We endeavoured to ascertain the gross and net profits on their sales of beer, porter, etc., and spirits. The evidence we got showed that the gross profits on draught porter and beer, after allowing for wastage, varied from 10s. to 16s. a 32-gallon barrel. On Extra Stout the profits were on an average higher, particularly when sold in bottle, but Extra Stout was only a comparatively small part of the trade. We think a fair average for all might be taken at about 15s. a barrel. The gross profits on spirits when reduced were put at from 7s. to 10s. a gallon, equivalent probably to an average of 10s. per proof gallon. Various estimates were given as to how much of the gross would be net profits, and the result of the evidence led us to the conclusion that about one-third of the gross profits would represent net profits. Probably four-fifths of the beer, porter, etc., three-fourths of the spirits, and one-eighth of the wines consumed in Ireland, would be sold in public houses. So that on this basis, the aggregate net yearly profits of the publicans (excluding hotels, restaurants, etc.) on their average sales for the years 1911 to 1914, inclusive, would be, on beer, porter, etc., about £560,000, on spirits about £400,000, and on wines about £21,000, making in all about £981,000, and if the profits on mineral waters, cider, cordials, etc., be added, their annual net profits would not exceed in all of £1,100,000 or, excluding as before, hotels, etc., an average net profit of about £68 a house.

48. The entire number of Income Tax Assessments in Ireland in respect of Retail Houses (hotels, inn, beer houses, etc.) was, for the year 1911-12, 2,674, and the aggregate amount assessed £625,500, or an average of about £240 an assessment. This, in hotels and public houses where other businesses were carried on, included profit on other things besides drink. The remaining 13,723 publicans were, therefore, presumably making less than £160 a year from all sources, and some of them must have been making very little indeed.

Our figures, where they are estimates deduced from evidence, may be erroneous; but we think the error cannot be very great and we have given them for the purpose of indicating, as nearly as we could, the amount of net profits to be dealt with.

We had also some evidence as to sales of public houses in different parts of the country and the prices realized. This was of some assistance, but in the absence of particulars as to tenure, rent, condition of premises, etc., it did not, taken alone, enable us to arrive at any general basis of value.

49. We recommend the following bases of purchase of public houses:—

A. Where the premises are used solely as a Licensed public house. If the publican wishes to sell his interest in the premises or the State wishes to acquire it:—

(a.) The value of the fee-simple, free from incumbrances, should be ascertained by the Tribunal on the basis of a certain number of years' purchase of the true net annual value, and out of this fund all superior interests should be redeemed and all incumbrances paid. The superior interests to be valued by the Tribunal unless otherwise agreed upon.

(b.) The publican should be paid the value of his fixtures and fittings and also of his stock of liquor when taken over; as to the latter, subject to excess war profits, if applicable.

(c.) He should also be paid a number of years' purchase of his net profits from the liquor business ascertained on an average of three to five years' trading (at the option of the

Tribunal) next prior to the war. We do not fix any number, but we suggest seven. In many cases it might be less, if, for example, the profits were declining, accounts were not produced, or for any other reason which the Tribunal may think adequate.

B. When the publican does not wish to sell his interest in the premises and the State does not wish to acquire it (b) and (c) will apply.

C. Considerable difficulty may arise where the publican himself or the members of his family conduct the business, and this will be increased where they conduct another business or other businesses in conjunction with the liquor business. In order to ascertain the true net profits a deduction for these services should be made from the gross profits, and the persons rendering them could be compensated for loss of employment on such terms as the Tribunal may consider reasonable. But this would be a very difficult matter to work out, and we think the Tribunal should be left to deal with the matter either (1) by making no deduction from the gross profits on account of these services and giving a smaller number of years' purchase of the profits without these deductions, which would in that case include compensation for loss of employment; or (2) by ascertaining the net profits by applying the average net profits on the sale of drink in the district to the quantity of drink sold by the publican, and giving him such a number of years' purchase of this net profit as will, in the opinion of the Tribunal, include reasonable compensation for loss of employment by the persons who conduct the business.

#### THE OFF-LICENSE HOLDERS AND SPIRIT GROCERS.

50. These, on the 31st March, 1917, numbered in all 1,068, and paid an aggregate license duty of £17,801, subject to some rebate for curtailment of hours of sale. Few of them carry on the liquor business alone. In the large majority of cases it is carried on along with other businesses and in the same premises. We had no means of ascertaining the aggregate volume of their liquor trade. Their gross profit is less than the publicans, and the evidence leads us to the conclusion that their net profits would not exceed 25 per cent. of their gross profits.

51. We recommend that they should be dealt with on the same basis as recommended in the case of the publicans, but we would substitute five years instead of seven years of net profits subject to the same observations.

#### HOTELS AND RESTAURANTS.

52. We do not think it is necessary in carrying out a scheme of purchase and control of the liquor-trade that the interests of hotels and restaurants in the sale of drink should be acquired. But in the case of hotels or restaurants which have hitherto been used for the sale of drink, these bars should be acquired upon the same basis as the publicans' interests, or they should be wholly discontinued. In order to secure that in the future hotels and restaurants are not made a substitute for the public house, legislative provision should be made that their licenses should be withdrawn in the event of their receipts from the sale of drink exceeding a specified percentage of their total receipts as hotels, and that an inspector should be at liberty from time to time to examine their books and accounts to see that this percentage is not exceeded.

#### THEATRES, PLACES OF ENTERTAINMENT, RAILWAY REFRESHMENT ROOMS.

53. We do not think it is necessary that the liquor interest of these should be purchased, but they should be subject to inspection in order to secure that they are not exceeding the reasonable use of their licenses. If they are habitually so exceeding, their licenses should be withdrawn.

#### STEAMBOATS.

54. There is no necessity to interfere with these.

#### CLUBS.

55. We do not think there is any necessity to acquire the liquor interest of clubs, but we think they should be dealt with on lines somewhat similar to those we have suggested in reference to hotels and restaurants.

#### ALLIED TRADES.

56. We think the only allied trade that need be dealt with is that of the Malsters. There are about twenty-two or twenty-three malting companies or firms in Ireland carrying on their business at different places in Dublin and the country. Some of these also carry on the business of Malt Roasters. Their Association was represented by witnesses before us, and we also heard witnesses representing the Malt Roasters. Some of them malt on commission for the brewers, and these and the others also purchase grain and malt it on their own account and sell it either to the Brewers in Ireland or in England, but chiefly in Ireland. Their business, though separately owned, is, for all practical purposes, a necessary part of the brewing trade. They made the case that, if the Brewers were purchased out, they should be bought out also, as the State, being then their sole customer,

would be in a position to impose upon them what terms it pleased, or do the malting for its own breweries if it so desired.

57. We are of opinion that if the breweries are purchased and no arrangement can be made with the Malsters, their business should be acquired also. So far as we could ascertain the business is a profitable one. The buildings are considerable, but the machinery and plant, though valuable, are not large in proportion to the profits. The stock of raw material varies with the seasons. In the Autumn and Winter it is very considerable, but not so large at other seasons of the year. Their customers being the Brewers, they make no bad debts, and their business is a stable one.

58. If the State purchases the breweries and continues the business, we think it would be desirable and quite feasible to come to some arrangement with the Malsters whereby they could continue their business for the State without being purchased. If this cannot be done, then they should be purchased upon the basis of the fee-simple value of their lands and buildings, free from encumbrances, and also the value of their trade, machinery, fixtures, plant, and stock-in-trade, and a certain number of years' purchase of their net annual profits, based on an average of five years prior to the war, for goodwill, compulsory purchase, &c. We think about five years' purchase of these net profits would be reasonable where everything was in good order, the business well managed and profits showed steady maintenance, the Tribunal to have full power to take into account any exceptional circumstances.

## EMPLOYEES.

59. The classes of persons employed and the terms of employment vary very much. No general scheme of pensions exists in any sections of the trade, but we are satisfied that in some of the large concerns old or disabled employees are treated on a sympathetic and considerate basis. The largest brewery has a definite but purely voluntary scheme of pension and allowances which extends to dependents of the employees, and we were furnished with a copy of this scheme which will be found appended to Mr. Sutton's evidence. We think this scheme, and provisions which are made by other employers, should be considered and, if possible, the employees affected by them should not be placed in a worse position by reason of the State taking over the property and business.

60. No compensation need be paid in any case where the State is able and willing to give employment analogous in character and equivalent in remuneration, and such offer is not accepted.

Where employment is accepted at the same salary, or a higher salary, no compensation should be payable till retirement for age or disability not caused by misconduct. On retirement for either of these causes, compensation should be given for pre-State service, on the terms suggested herein, together with such pension, if any, as may have been earned in respect of State service.

It will be for Parliament to determine whether the conditions of the State service are to be those of ordinary Civil Service, i.e., whether retirement on pension of such men as are taken into the service of the State will be allowed before the age of sixty. If that concession is made, the compensation in respect of pre-State service should reckon from the date of retirement.

If a person is employed by the State at a rate of pay lower than that formerly enjoyed, he should be compensated in respect of the difference as if this difference had been the amount of his salary and he had not been employed by the State.

No compensation by way of annual pension should be paid in any case unless a person has served for ten years.

61. Subject to these reservations we make the following recommendations:—

(a) The Technical Staff of Brewers and Malsters and, possibly, to some extent of Distillers, comprising Operative Brewers, Operative Malsters, Chemists, Engineers, etc., is composed of men who have had to acquire specialized knowledge to fit them for their particular duties, and have also had to serve an apprenticeship of about three years, paying fees and not earning any salary, their whole training costing a considerable amount of money. They then devote themselves to their particular branch of the work, and many of them ultimately receive large salaries. Their terms of employment are generally fixed by agreement, and are usually by the year or for a term of years. If the State purchases the businesses they would be quite willing to continue their services on the same terms. But, they say, if their services are dispensed with there will be no longer any other employer, and their training will not fit them for other employment in which they could hope to secure the same income, and the time and money spent in fitting them for their present employment will have been lost. They ask that treatment similar to that provided in the Metropolis Water Act, 1902, and the Port of London Act of 1908, with certain modifications, should be accorded to them. We think that this puts their claim too high and that compensation on the following scale would probably be sufficient:—

If still an apprentice, any apprentice fee paid to be allowed, and further reasonable expenses incurred in learning the business, to be in the discretion of the Tribunal.

For those who are fully qualified, who have served for less than ten years, a gratuity of one-twelfth of their salary for each year's service.

For those who have ten years' service or more, an annuity or pension computed on one-eightieth of their average annual salary for the three years before their services are discontinued for every year's service, but not exceeding, in any case, one-half such annual salary.

(b) Directors of Companies who have served three years or less should, we think, receive one year of their remuneration in cash; for more than three, and less than seven years, two years; and for more than seven, three years. A Managing Director to be compensated, in addition, under (c) in respect of that portion of his salary which is in excess of the remuneration of an ordinary director.

(c) Managers and other officials, for whom a specialized training, such as required by the technical staff, is not necessary, but whose terms of employment are somewhat similar and whose

experience and knowledge could be more easily adapted to work in connection with other business should, where they have served less than ten years, receive a gratuity of one-fifteenth of their average salary for the three preceding years in respect of each year they have served. Where they have served ten years or over, we consider that they should be compensated by a pension equivalent to one-hundredth of their salary, averaged for the preceding three years, but in no case to exceed one-third of their average salary for the three years for every year's service, or, at their option, a cash payment of the value of this annuity.

(d) *Publicans' Assistants and Shopmen*.—These are employed upon terms which enable their employers to terminate the employment, in many cases, without any previous notice being given; in other cases on a week's notice, and in a limited number of cases on receiving a month's notice. Where the employer carries on other businesses in conjunction with the liquor trade, their services usually extend to these other businesses as well as to the liquor business, and, therefore, they would probably be retained by their employers where they were only parting with the liquor end of their trade. Very exaggerated claims were put forward on their behalf, but we consider that they would be adequately dealt with by giving those of them who had served not more than two years a sum equivalent to one month's salary, to be increased by a fortnight's salary for every additional year of service.

(e) *Vanmen, Yardmen, Labourers, &c.*, can be dismissed on a week's notice, require no special skill or training, and can easily get other similar employment. They should get a cash payment equivalent to a week's wages for every year they have served.

(f) Some manufacturers have agents for particular districts who are paid by commission on their sales. The services of these agents might be retained by the State to manage distribution in these areas on terms of remuneration similar to those at present existing. But if that cannot be arranged, the Tribunal should deal with each such case upon its merits and award some reasonable compensation. We have not sufficient information to enable us to suggest the basis upon which this should be made beyond a consideration of their profits and expenses, the terms of their commission, the prospect of its continuance or termination, and the fact that the time and exertion given to it will no longer be required.

## TRIBUNAL

62. We recommend that a Tribunal should be constituted to deal with fixing the amount of compensation and all other questions arising in reference to the purchase and transfer of the property, and adjusting the claims of all persons having superior interests in the lands and premises acquired or having mortgages or charges (including debentures) upon them or upon any other property of the Vendors.

63. The Tribunal should consist of five members and should include at least, one lawyer, one accountant, and one business man. All should be independent of the parties and of the interests to be dealt with, and should be men of standing and experience.

The Tribunal should have full power to call for and examine all books and accounts relating to the businesses, and to inspect all premises, plant, machinery, stock, etc., and to procure such skilled assistance as they might require. They should also have power to ascertain the views of the owners of the various interests and to negotiate with them and, if an agreement is arrived at, the owner should be paid all reasonable costs incurred by him up to that date. If an agreement is not arrived at, the Tribunal should bear the case of the owners and the answer of the purchasers and decide the matter, the cost of such bearing to be in the discretion of the Tribunal. Their decision upon all questions of fact and amounts to be final. But, if required to do so by either party, they should, upon any question of law, state a case for the King's Bench Division of the High Court of Justice in Ireland, and the decision of that Court upon the question of law so stated should be final. The necessary costs of making Title should be borne by the State.

Save as aforesaid, the costs and expenses of and incurred by the Tribunal should be borne and paid by the State.

## MODE IN WHICH PAYMENT SHOULD BE MADE.

64. We have not had evidence from any financial experts on this matter, and we therefore hesitate to express an opinion. We assume it will be dealt with fully by the English Committee, who have had important evidence on the subject. We may, however, make the following suggestions:—

In addition to cases in which persons entitled to annuities or pensions are given the option of having an equivalent payment in cash, we think that where the amount awarded does not exceed £500 it should be paid in cash.

For the other payments we think Stock should be created on a 4 per cent. basis repayable at par in, say, thirty years, charged upon the entire property of the Liquor Trade acquired in the United Kingdom and guaranteed by the State.

The terms upon which the Stock should be issued should, we think, be carefully considered by financial experts. No doubt before the War it would have been more than equal to cash. It would not be so now, and there may be still further changes in its value before the transaction is completed. If the transaction had been completed and the Stock issued before the War, it would have depreciated in value, but it might have been, in whole or in part, disposed of by the owners and the proceeds invested in some business or security which might not have depreciated so much or which might in fact have become more or perhaps less valuable. That the owners have not had the opportunity of

sing this should, we think, be taken into account. Apart from this general question, there are two matters which we think require to be dealt with specially:—

- (1) The owners must pay their ordinary trade debts in cash.
- (2) They could sell their stock-in-trade for cash.

To the extent of these two items, we consider the payment should be in an amount of Stock equivalent to cash.

### CONTROL.

65. If the Government decides to purchase the Liquor Trade or any branches of it, and also decides upon the basis upon which the purchase is to be made and the methods of ascertaining the price, and has these matters fixed and determined by Statutory Provision, then, we think, if Control is to be put into operation, it could be effected, at all events so far as the Distillers, Brewers, Merchants, and Malsters are concerned, by arranging with the present owners to carry on their respective businesses for the State and subject to its direction, guaranteeing to them their average profits estimated on a definite period prior to the War, and paid half-yearly, with a percentage upon any additional profits made by them so as to ensure that their best efforts would be given to the business.

We do not think that this would be a satisfactory arrangement in reference to all public houses and off-licenses. It might be applied to a certain selected number in each district. As to the others, it would be better that they should be closed or their business discontinued until the purchase is completed, even at the expense of making, in the meantime, half-yearly payments to the owners on the basis of an estimate of their average net profits for a definite period prior to the War. These amounts to be adjusted when the true annual net profits are ascertained and the purchase is completed. In our view, in these cases, the best solution is immediate purchase.

### SUMMARY OF RECOMMENDATIONS.

66. These recommendations are given in the order in which they are made:—

1. Distillers should be purchased upon the basis of acquiring the fee-simple, free from incumbrances, of all lands and buildings used by the owners for the purposes of their businesses and all other property used in or directly connected with their business, also free from all charges (Par. 25).

2. The average annual net profits of each concern for the past five years prior to the War should be ascertained as set out in Par. 26.

3. A certain number of years' purchase (we suggest twelve years as a standard for a high-class concern, Par. 30) should be given for the entire lands, buildings, machinery, plant, fittings, fixtures, good-will, and every other property and interest used in or necessary for carrying on the business, exclusive of book debts, reserve funds (where separately invested) and the Stock manufactured or unmanufactured.

4. The book debts and invested reserve funds to remain the property of the owner, and the Stock to be taken over by the purchaser at a price to be agreed upon, or, failing agreement, to be fixed by the Tribunal; the question of excess war profits to be taken into account (Par. 26).

5. The purchaser to take over all existing contracts and to indemnify the Vendors in respect of these (Par. 26).

6. All liabilities except ordinary debts to be ascertained on a pre-war basis (Par. 29).

7. Legislative provision should be made that, so far as Debentures and Debenture Stocks are concerned, the sale and purchase should not be treated as a winding-up of the company, but the amounts to which the Debenture Holders would be entitled should be determined by the Tribunal, unless agreed upon by the parties interested (Par. 29).

8. Recommendations in the case of the Brewers similar to those recommended in the case of the Distillers, except that thirteen years of the net profits should be substituted for twelve years (Par. 34).

9. Brewers' tied houses should not be included in the property purchased for a definite number of years of the net profits. But should be acquired on the same basis as "On" licensed public houses. The amount of compensation to be divided amongst the parties interested in proportion to the value of their respective interests (Par. 35).

10. Malting carried on by Brewers, whether for their own use or for sale, should be treated as part of the business to be acquired, and the premises used for this purpose as part of the brewery premises (Par. 36).

11. Where mineral water manufacture is carried on by Brewers as a separate business and upon premises separate from the brewery premises it is not necessary that it should be acquired, but Brewers may be entitled to some compensation on account of the additional cost of carrying it on as a separate concern (Par. 37).

12. When it is carried on on the premises to be acquired by the State, it should be treated as part of the entire business, regard being had to this by the Tribunal when fixing the number of years' purchase (Par. 37).

13. If the manufacturing and retail branches of the Trade are purchased the interests of wholesale merchants, bottlers (except perhaps one large firm whose trade is almost exclusively confined to export to foreign countries) and blenders should be acquired on the same terms as those recommended in case of the "Off License" Holder (Para. 39 and 40).

14. We recommend the following basis of purchase of public houses (Par. 49):—

A. Where the publican wishes to sell his interest in the premises in which he carries on his business, or the State wishes to acquire it:—

- (a.) The value of the fee-simple, free from incumbrances, should be ascertained by the Tribunal, and out of this fund all superior interests should be redeemed and all incumbrances paid, the superior interests to be valued by the Tribunal.
- (b.) The publican should be paid the value of his fixtures and fittings and also of his stock of liquor when taken over; as to the latter, subject to excess War profits if applicable.
- (c.) A number of years' purchase of his net profits from the liquor business ascertained on an average of three or five (at the option of the Tribunal) years' trading next prior to the War. We do not fix the number of years' purchase, but we suggest seven.

B. Where the publican does not wish to sell his interest in the premises and the State does not wish to acquire it (b) and (c) will apply.

C. Where the publican himself or members of his family conduct the business, in ascertaining the true net profits, a deduction should be made for their services, and the person or persons rendering them could be compensated for loss of service on such terms as the Tribunal may think reasonable; or

(1.) The Tribunal might make no deduction from the profits in respect of these services and give a smaller number of years' purchase of the net profits without such deduction, which would on that basis include the value of the services; or

(2.) They might ascertain the average net profits on sales of drink in the district, apply this to the average sales in the particular case, and give such number of years' purchase of this profit as the Tribunal should consider sufficient to include compensation for such services (Par. 49).

15. "Off" License Holders and Spirit Grocers should be dealt with on the same basis as the "On" License Publicans, but five years should be substituted for seven years of the net profits (Par. 51).

16. We do not think it necessary that the interests of hotels and restaurants in the sale of drink should be acquired; but where they have been mainly used for the sale of drink these should be acquired upon the same basis as the "On" Licensed Publicans' interest, or they should be wholly discontinued (Par. 52).

17. We do not think it necessary to acquire the liquor interest in Theatres, Places of Entertainment, Railway Refreshment Rooms, Steamboats or Clubs; but we make recommendations for their supervision (Para. 53-55).

18. We think the only allied trade that need be dealt with is that of the Malsters (Par. 56).

19. If the Brewers are purchased, and no arrangement is made with the Malsters for continuing their business, their interests should be purchased also on the basis of the fee-simple value of their lands and premises, free from incumbrances, and the value of their machinery, fixtures, plant and stock-in-trade and a certain number of years' purchase (we suggest five as a standard) of their net annual profit, based on an average of five years prior to the War, for goodwill, compulsory purchase, etc.; the Tribunal to have full power to take into account any exceptional circumstances (Para. 57 and 58).

20. Where Employers had Pension Schemes, the Employees, losing employment, should not be placed in a worse position by reason of the State taking over the property (Par. 59). Apart from this and subject to reservations mentioned in Par. 60 we recommend that persons losing employment should be compensated according to Scale set out (Par. 61 (a), (b), (c), (d), (e) and (f)).

21. A Tribunal should be constituted consisting of five independent members, of whom at least one should be a lawyer, one an accountant, and one a business man, to deal with fixing the amount of compensation, and all other questions arising in reference to the purchase and transfer of the property and adjustment of the claims of all persons having superior interests in the lands and premises acquired, etc. Their decision upon all questions of fact and amounts to be final; but, if required to do so by either party, they should state a case upon any question of law for the King's Bench Division of the High Court of Justice in Ireland, and the decision of that Court should be final (Para. 62 and 63).

22. In addition to cases in which persons entitled to annuities or pensions are given the option of having an equivalent payment in cash, we think, that where the amount awarded does not exceed £500 it should be paid in cash.

23. For the other payments we think Stock should be created on a 4 per cent. basis, repayable at par, in (say) thirty years charged upon the entire property of the Liquor Trade acquired in the United Kingdom and guaranteed by the State (Par. 64).

To the extent of the owners' trade debts and stock-in-trade, payment should be in an amount of Stock equivalent to cash.

24. On the assumption that the basis on which the purchase is to be made and the method of ascertaining the price has been fixed and determined by an Act of Parliament, we think control could be effected, so far as the Distillers, Brewers, Merchants and Malsters are concerned, by arranging with the present owners to carry on their respective businesses for the time with a guarantee of their average net profits based on five years next before the war, and a percentage upon any additional profits earned (Par. 65).

25. This system might be applied to a certain number of public houses in each district

As to the others, it would be better that they should be closed or their business discontinued until the purchase is completed, even at the expense of paying them similar estimated net profits (Par. 65).

We desire to express our high appreciation of the services which our Secretary has rendered throughout the enquiry.

JOHN GORDON.  
H. D. M. BARTON.  
M. A. ENNIS. (See Reservations.)  
STANLEY HARRINGTON.  
ROBERT THOMPSON.  
M. F. HEADLAM.  
MAURICE E. DOCKRELL.  
THOMAS O'DONNELL. (See Reservations.)

W. T. SHERIDAN,  
Secretary.

16th January, 1918.

## SUGGESTIONS

### FOR THE

*Reduction of the number of Licensed Public Houses in Ireland should the scheme of State Purchase of the whole of the Liquor Trade not be proceeded with.*

Although not coming within the scope of the Reference to them, the Committee unanimously desire to suggest that if the contemplated State Purchase and Control should not for any reason be carried out, it would be most desirable from every point of view that some scheme should be provided by which the number of Licensed Public Houses in Ireland would be substantially diminished. They would suggest by at least one-half.

There are in Ireland 16,356 houses licensed for the sale of Spirits to be consumed on the premises, and 283 for the sale of Beer to be consumed on the premises, or one for every 283 of the inhabitants of the country. In England and Wales the total number is 86,722, or one for every 415 of the inhabitants, and in Scotland 6,841, or one for every 695 of the inhabitants.

To reduce the number in Ireland would be a great social advantage, and would greatly lessen the labour of supervision by the Police. Almost all the witnesses engaged in the Trade were strongly in favour of such reduction, and stated that, in their opinion, the owners of the remaining public houses would willingly contribute to the cost.

The Committee suggest that a Tribunal should be appointed to determine the particular houses in each district the liquor business in which should be acquired for the purpose of extinction, and it should be given power to treat with the owners as to terms, and, failing agreement, to fix the terms upon which these interests should be acquired. Preferably the licenses attached to houses in which grocery, provision or drapery businesses are carried on should be selected for extinction.

The Committee think that an amount equivalent to the whole—or at all events to the greater part of the amount required for the purchase could be raised, by a special charge, upon the amount of drink sold by each of the remaining publicans, of 1s. per Barrel on Beer and 1s. per Gallon on Spirits. This might be collected by a system of stamps to be paid for by them and affixed to their receipts for goods purchased. Or if thought more desirable, the Tribunal might fix an amount proportioned to his profits to be paid by each of the remaining publicans.

The funds produced to be managed by the Tribunal, or the State, and applied towards the payment of interest and to create a sinking fund to pay off the whole, or a large portion of the amount advanced for purchase. The majority of the Committee think that the balance (if any) would be well expended by the State in getting rid of such a large number of superfluous public houses. In view of the immediate nature of the problem the State should in the first instance provide the money and pay the cost of purchase, and should pay all expenses of the Tribunal and of working out the scheme. We do not enter into full details, but we earnestly desire that this suggestion should receive careful and favourable consideration.

Mr. Headlam is of opinion that the State should not ultimately bear any part of the cost of purchase, but subject to this reservation, he joins with the other members of the Committee in signing this suggestion.

JOHN GORDON.  
H. D. M. BARTON.  
M. A. ENNIS.  
STANLEY HARRINGTON.  
THOMAS O'DONNELL.  
ROBERT THOMPSON.  
M. F. HEADLAM.  
MAURICE E. DOCKRELL.

W. T. SHERIDAN,  
Secretary.

16th January, 1918.

## RESERVATIONS BY MR. M. A. ENNIS.

As the terms of Reference are in my opinion capable of divergent interpretations upon a point of considerable importance I desire to elucidate therein my conception of their true reading on this point, and to state the fact that my signature to the Report is based upon this conception.

That portion of the Reference dealing with control of the manufacture and distribution of alcoholic liquors in Ireland during the war I regard as falling within the category of urgent war measures exemplified by State control of Railways and various other forms of controlled authority presumably terminating concurrently with the extinction of the cause from which they spring.

My difficulty arises when I come to consider a present agreement for purchase of Liquor Trade interests involving capital liabilities of great magnitude in view of the facts:—

- (a.) That the date of fruition of the proposed purchase is necessarily indicated by a somewhat vague and nebulous formula.
- (b.) That whether the interval between agreement and purchase be long or short the law provides for a vital change in the Government of Ireland during that particular interval.
- (c.) And therefore that the ultimate purchaser—the Irish State—cannot be a direct party to present negotiations. It may be urged that the intention underlying the Reference is an unified control and purchase of the Liquor Trade of the United Kingdom by the Imperial State, but the appointment of three separate Committees would seem to indicate recognition of the necessity for divergent treatment within separate areas.

In my view I am clearly not entitled to forecast any possible or probable changes in the Irish Constitution. I must study this problem from the point of view of the existing law.

The existing law is embodied in the Government of Ireland Act, 1914, and the mandatory provisions of that Act contained in Section XXVI which became tentatively operative on 31st March, 1918.

I am not prepared to assume either desire or intention on the part of His Majesty's Government to emasculate the incoming Irish Parliament created by that Act by utilising the suspensory period to withdraw from it powers vital to efficient self-government.

Such a Parliament deprived of effective control of Irish land, Irish railways, Irish roads, Irish forests, and the Irish Medical Service would obviously be an impotent body wielding only a negligible authority.

In the absence of unfettered control by the Irish Parliament of the manufacturing side of the Irish Liquor Trade 31 per cent. of Ireland's normal Revenue might at any moment be jeopardised by the arbitrary exercise by an outside authority of powers of control including extinction, transference, or dilution whilst on the distributive side of the trade a Government charged with the maintenance of law and order would be hampered by lack of authority to deal with a potent cause of disorder.

I recognise that effective control by the Irish State involves purchase by the Irish State, and I therefore suggest as a variant of the terms proposed in Par. 64 of the Report that all payments should be made in Irish Excise Stock issued at par, carrying 4 per cent. interest free of Income Tax, forming a first charge on Irish Excise Revenue, redeemable in ten, and repayable at par in thirty years from date of issue.

I assume that the obligation to purchase contemplated by the terms of Reference would arise only in the event of manifest injury to the commercial interests of the Concerns controlled. My view of the situation as disclosed by the evidence taken by the Committee is that in the case of the large manufacturing firms diminution of output has not led to diminution of profits, and that the dividend-paying capacity of these firms has not been injuriously affected.

In these circumstances, and in view of the desirability of safeguarding the Irish Treasury from excessive commitments in the initial stages of its career, I venture to express the hope that His Majesty's Government may find it possible to avoid purchase of the manufacturing branch of the Irish Liquor Trade, and to accept instead the alternative suggestions contained in the addendum to the Report, the handling of which would present no difficulty to the Irish Exchequer.

M. A. ENNIS.

## RESERVATIONS AND MEMORANDUM BY MR. THOMAS O'DONNELL, M.P.

While agreeing with my colleagues in their principal findings, I regret to find myself in disagreement with them on two questions (a) The net profits of public houses; (b) the price to be paid for the Publican's Interest. These two questions are dealt with in paragraphs 47 and 49 of the principal report.

## NET PROFITS.

The true net income from the sale of drink in public houses in Ireland is a matter impossible of accurate ascertainment by a Commission such as ours. The best that can be done is, with the figures at our disposal, to make a rough estimate. My colleagues fix the gross profit on the sale of all classes of beer—bottled and draught—at 15s. per barrel. This I consider too low, and I estimate that 18s. per barrel would be nearer the actual figure. I cannot accept their figures as regards the gross profit on wine, which I estimate at 10s. per gallon, nor as regards minerals, on which I estimate publicans have a total annual gross profit of at least £100,000.

I estimate that of the drink sold each year in the country the publicans sell seven-eighths of the beer and spirits, and at least one-half of the wine.



On these figures the gross profits of publicans would be on spirits £1,378,125, on beer £2,205,000, on wine £275,000, on minerals £100,000, making a total gross profit per annum of £3,958,125. Of this I estimate that 40 per cent. would be net profit, making a total annual net profit for Irish publicans of £1,583,000.

The finding of the true net profits of each individual publican will have to be determined more accurately when the purchase is being carried through by Tribunal Officers.

#### PURCHASE PRICE.

The other question on which I find myself compelled to disagree with my colleagues is the price to be paid for the publican's interest in the license. They suggest seven years' purchase of the net income as the maximum price to be paid, or, roughly, about seven millions for the whole of the Irish publicans' interest in their licenses. This I consider an inadequate and, when the special circumstances of Ireland are taken into account, an inequitable sum. There are in Ireland 16,500 families making their living mainly by the sale of drink. That this number is too large nobody will deny when we consider that Scotland, with a much larger population and with double the wealth, has only 6,400 publicans. To reduce the number of publicans is not only the right, but in this case seems the urgent duty of the State. The peculiar condition of Ireland has, however, to be carefully considered, and when we are effecting a great social reform we must be careful not unduly to inflict hardship or injustice on individuals, even though we dislike the trade they carry on and are satisfied it is injurious to the national well-being.

In Ireland, as already explained, under the existing law there is fixity of tenure in licenses which does not apply in either England or Scotland. Acting on this public security men have invested their capital in the business, they have given their time and their energies to it, they regard it as well-secured property for their families. It is to three-fourths of them their principal means of livelihood. Another factor has also to be taken into account. Ireland is far from being in a normal condition industrially. The very existence of 16,500 public houses, or one for every fifty families, is of itself the saddest and most convincing proof of this, as, if other fields were open in their own country to our young men, very few of them would, from choice, adopt the career of publican. Regret and deplore it as we may, the fact has got to be admitted that in the stagnant industrial condition of our country very few opportunities are available for profitably using capital in other trades.

Ireland, at least three-fourths of it, is mainly an agricultural country. Few of our smaller towns have industries of any importance, while, unfortunately, they all have far too large a number of public houses. It may afford interesting pastime for the mere critic to apportion blame for this regrettable condition of affairs. It is, however, the duty of the Statesman who wants to achieve reforms to recognise existing conditions, to face facts as they are in a modern, practical and sympathetic spirit. Dealing with the Irish Drink Problem in this spirit we must recognise that when men's licenses are taken from them very few, if any, other avenues of employment are open to themselves and their families. This, to my mind, is the great outstanding difficulty specially peculiar to Ireland. It makes the problem more difficult than in England or Scotland, but it also shows the great need for immediate and effective steps being taken towards carrying out the alternative scheme suggested on broad and generous lines.

In arriving at a figure which would be reasonable we must be guided by the prices paid for the extinction of licenses in England under the Act of 1904. Under this Act a certain number of licenses has been extinguished annually, a compensation fund created, all licensees paying into it. In the year 1906, two licensees, not being satisfied with the amount of compensation awarded them on the extinction of their licenses, appealed to the High Court and were awarded, in the first case, ten years' purchase of their profits and three years' purchase of the rest of the premises, and in the second case, eleven years' purchase of profits with ten years' purchase of the rent. In addition to giving ten and eleven years' purchase on profits it will be seen that a further sum was given as compensation for the reduced letting value of the house after the license was taken away.

Taking into account all these factors which I have mentioned—and for a feasible or equitable solution of this problem, they cannot be ignored—I am forced to the conclusion that when a man's license is taken from him the figures awarded in England would be a much fairer guide to be taken by the Tribunal than those given by my colleagues.

#### ALTERNATIVE SCHEME.

The alternative scheme of purchase which we have unanimously adopted seems to offer a splendid opportunity of at least making a beginning in dealing with the drink evil in Ireland. This scheme proposes to buy up at least half the Irish public houses, the compensation, in the main, to be paid by those who remain. The amount of the compensation payable in each case is to be determined by the Tribunal which it is proposed to set up. It may cost four or five millions, but will be practically self-supporting, involving the State in little or no financial liability while doing the community an invaluable service. The publicans themselves, as shown in the evidence which they gave, are wholeheartedly in favour of it. To carry out such a scheme would, to my mind, be a national blessing, and in order to achieve it I feel we should not deal in a paltry or niggardly spirit with those whose licenses are being taken from them. The drink traffic as it exists in Ireland to-day is one of the most serious hindrances to national progress. To lessen its ravages, to confine and limit its evil influence in the manner suggested in the alternative scheme would be such a great national blessing that nothing should be done which could even remotely arouse fears of injustice or unfair treatment in the minds of the publicans. The human wrecks, physical and moral, which one sees in our cities and towns, the ruined homes, the squalor, poverty, and decay, the neglected, underfed, and diseased children, all present a spectacle calling for immediate and radical treatment by a drastic extinction of small

badly-kept, isolated, and remote public houses, and by proper supervision and management of those that remain.

To achieve any great reform we must carry the public conscience with us. There must not be the slightest trace of injustice. While we wish to mitigate a great evil for the benefit of the community, we must not do so at the expense of those who have carried on the business for generations with the sanction and approval of the State. So anxious am I to see this alternative scheme carried through, that not only would I give the publican just compensation, but I would even go a little farther in the hope of making this scheme a success. I would give a free hand to the Tribunal which is to be set up to deal with each case on its merits. A rigid uniform figure would be bound to operate unjustly in the variety of widely differing cases that will have to be dealt with.

Subject to the foregoing reservations, I agree with my colleagues.

THOMAS O'DONNELL.

## V.—TABULAR COMPARISON OF REPORTS OF ENGLISH, SCOTTISH, AND IRISH COMMITTEES.

—	England.	Scotland.	Ireland.
Breweries .. ..	<p>15 years' purchase of net profits over 4 years, 1910-1913.</p> <p>15 years' purchase being based on pre-war conditions, the resulting capitalisation is to be adjusted according to the general standard of capital values prevailing at the date of the State's discharge of its capital liabilities.</p> <p>This covers all assets (subject to adjustment for increase or diminution since 1914) on a freehold basis. Freeholders of brewers' leasehold properties, and tenants' interests in any beneficial leases have to be satisfied out of this corpus. Profits to be determined on rules to be laid down, and include rent and income tax, Schedule (D).</p> <p>Terms variable in exceptional cases.</p>	<p>8 years' purchase (based on present conditions) of net profits over 3 years, 1911-1913.</p> <p>This covers all the assets of Scottish breweries except stocks.</p> <p>"Profit" means "income tax assessment."</p> <p>Years' purchase variable from 7 minimum to 9 maximum.</p>	<p>14 years' purchase of net profits over the 3 years before the war.</p> <p>This includes the full simple value of all assets except (a) stocks and (b) tied houses (only ten Irish breweries have tied houses, these houses numbering 400). Capital can therefore line to compensate reversioners and beneficial tenants as well as brewers. Profit to be determined on rules, and to include income tax, &amp;c.</p> <p>Terms variable in exceptional cases.</p>
Distilleries .. ..	No recommendation.	<p>7 years' purchase of profits, 1911-1913.</p> <p>Minimum 6 years' purchase, maximum 8. Remainder as for breweries.</p>	<p>12 years' purchase of profits, 1910-1914. Rest as for breweries.</p>
Rectifiers .. ..	No recommendation.	<p>13 years' purchase of annual value of premises found in Valuation Roll with 4 years' purchase of profits for goodwill.</p> <p>This excludes stocks.</p> <p>As for rectifiers.</p>	No rectifiers in Ireland
Blenders .. ..	English Committee regard them as wholesale dealers (q.v.).	As for rectifiers.	As for England.
Bottlers .. ..	English Committee regard them as wholesale dealers (q.v.).	As for off-licences.	As for England.
Wholesale dealers ..	Broadly speaking, exclude from purchase.	As for blenders, if blenders. Otherwise, as for hotel-keepers.	Provide for purchase of the business on such terms as business of off-licence holders. Some or all might continue for a time to wait for the State on agreed terms, purchase being postponed.

	England.	Scotland.	Ireland.
On-licences ..	<p>1. Quia owner of house. An appropriate number of years' purchase of net rental.</p> <p>2. Quia beneficial lessee, proper share of capital value of fee simple value of premises.</p> <p>3. Quia occupier (fixed or free) :—</p> <p>(1.) Chattel interest at a valuation.</p> <p>(2.) 2 years' purchase of net profit for personal goodwill of an annual tenant. More if on a lease with more than 2 years' unexpired term.</p> <p>(3.) Pension if services not retained by State.</p>	<p>1 and 2. No interests superior to that of the occupier to be acquired.</p> <p>3. Quia occupier :—</p> <p>(1.) Chattel interest at a valuation.</p> <p>(2.) 2 minimum and 4 maximum years' purchase of profits for goodwill. No provision for pension.</p>	<p>1. Quia owner. As for England.</p> <p>2. Quia beneficial lessee. As for England.</p> <p>3. Quia occupier :—</p> <p>(1.) Chattel interest at a valuation.</p> <p>(2.) A number of years' purchase of pre-war profits (tentatively suggested at 7) for goodwill. (7 appears to be a maximum). No provision for pension.</p>
Off-licences ..	<p>No interest in the premises to be acquired, unless in exceptional circumstances.</p> <p>Quia occupier :—</p> <p>1. Chattel interest at a valuation.</p> <p>2a. If on annual tenancy, 2 years' purchase of net profits for goodwill.</p> <p>2b. If on longer term and a post-1902 licence, not more than 3 years' purchase.</p> <p>2c. If on longer term and a pre-1902 licence, number of years' purchase based on unexpired term.</p> <p>No pension.</p> <p>Dry business of grocers not to be acquired. Compensation for severance if claim made out, unless Government elect to purchase whole business.</p>	<p>No interest in the premises to be acquired. Depreciation of freehold through disencumbrance may, in exceptional circumstances, be recognised by paying half a year's rent.</p> <p>Quia occupier :—</p> <p>(1.) Chattel interest at a valuation.</p> <p>(2.) For personal goodwill, not less than 1 nor more than 3 years' purchase of profits.</p> <p>No pension.</p> <p>No interest in dry business of grocers to be acquired.</p>	<p>As for Irish on-licences, but 5 years' purchase of net profits instead of 7.</p>
Freehold of on-licensed houses	<p>The terms of compensation to breweries include the freehold of all tied houses. The State is to acquire the freehold of all on-licensed free houses, paying the owner an indeterminate number of years' purchase of the true net annual value.</p>	<p>Freehold not to be acquired. The owner is bound, if required, to let his premises to the State on the terms that—</p> <p>1. If the premises were <i>bona fide</i> let before date of report, State pays the rent reserved under lease.</p> <p>2. If not so let, rent to be agreed by State or, in default, fixed by arbitrator.</p> <p>If State does not desire to continue trade, but merely to suppress the licence, it is to pay the capitalised sum of the rent reserved for the unexpired term of any lease, or of the difference between that rent and the on-licensed rent.</p>	<p>See "on-licences," quia owners.</p>
Stocks of liquor	<p>All normal stocks to be included in capitalisation of net profit.</p>	<p>Market value at date of purchase, vendor paying excess profits duty (<i>i.e.</i>, the trader obtains the pre-war market value, plus 20 per cent. of the increase since the war).</p>	<p>As for Scotland.</p>
Maltsters ..	<p>Do not purchase. An arrangement not to exclude from trade suggested.</p>	<p>Do not purchase.</p>	<p>Purchase is probably avoidable. If not, detailed valuation should be the method of purchase.</p>

	England.	Scotland.	Ireland.
Hotels .. ..	Purchase drinking-bars at appropriate number of years' purchase of profits made therein. Deal by regulation with the remainder of their trade. No recommendation as necessity for action is a managerial question. Exclude from purchase.	State should not purchase at all. If they purchase, they should only buy the business at $3\frac{1}{2}$ years' purchase of profits.	As for England. Terms for drinking-bars as for Irish on-licences.
Clubs .. ..		Not necessary to purchase.	Not necessary to purchase.
Refreshment - rooms, dining-cars, passenger vessels, theatres Mode of payment ..	1. Adjust the result of capitalisation at pre-war multiplier according to the prevalent standard of capital values at the date of completion of purchase. 2. Issue stock at a denomination and issue price enabling it to realise in the market at date of issue the sum arrived at by this adjustment. 3. Pay amounts of under 500l. in cash.	No reference.  Reserved for farther consideration by the Government.	Exclude from purchase.  The Committee has not taken evidence, and hesitates to express an opinion, being aware that the English Committee have gone carefully into the question. They suggest, however, the issue of redeemable stock on a 4 per cent. basis, charged upon the entire property of the liquor trade acquired in the United Kingdom, and guaranteed by the State. Amounts of less than 500l. to be paid in cash.
Debenture holders and other priority holders	The statute should abrogate their right to full repayment preferentially to the junior securities. Purchase-price to be apportioned by agreement or by tribunal on the lines of a model scheme given in the Appendix to the Report.	Sale to Government to act in law as a liquidation. Debenture holders can therefore exercise full priority rights.	As for England.
Procedure .. ..	Purchasing body to endeavour to agree. Free reference by either party to an appointed tribunal. Costs in discretion of tribunal. Appeal to High Court on points of law only.	Purchasing body to be compelled to make an offer and disclose all statistical material (i.e., income tax returns) on which offer based. Vendor free to reject and go to one of a panel of arbiters. If arbitrator gives more than the offer, State pays both costs; if he gives less, vendor pays both.	As for England.
Cost of purchase ..	850,000,000l. (excluding certain factors and before the process of winding-down to general standard of capital values prevailing at date of issue of stock).	61,000,000l.	No estimate.